



# Working conditions in the upstream segment of Palm oil industry in Indonesia

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## Abstract

In a modern world, where commodities are seen as mere objects that have use and market value (Watts, 2013), the stories behind them are often disregarded and unconsidered. However, many of these stories are characterized by severe violations of basic human rights. One such story is associated with the production of palm oil in Indonesia. By reviewing various data from academic literature, NGOs' reports and other online sources, this paper sheds light on working conditions and serious human rights violations on palm oil plantations of the company Indofood, which are mirror image of the treatment that workers face in the whole industry. We also aim to raise awareness about the importance of ethical consumption and consumers' role in solving these issues. So far, governments and companies have failed to address these problems, which means it is up to consumers to urge companies to move towards more socially responsible production, by providing them the only incentive they seem to respond to – threat of losing profits.

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## List of abbreviations:

**CSPO:** Certified Sustainable Palm Oil. It represents the Certificate that RSPO issue on sustainable producer that can afterwards be traded on the Green Palm Platform.

**CPO:** Crude palm oil.

**DOL:** Department of Labor

**FAO:** Food and Agriculture Organization.

**KLK:** Kuala Lumpur Kepong Bhd. A large company engaged in the production of palm oil.

**HR:** Human Resource. Represent the department of a company which manage the workers.

**ID:** Identity Cards.

**IDR:** Indonesian Rupiah. Local currency of Indonesia.

**ICCPR:** International Covenant on Civil and Political Rights

**ILO:** International Labor Organization

**ILS:** International Labor Standards

**ILRF:** International Labor Rights Forum

**ITUC:** International Trade Union Confederation

**RAN:** Rainforest Action Network.

**RSPO:** Roundtable on Sustainable Palm Oil. An organization that aims to achieve a sustainable production of palm oil.

**UN:** United Nations.

**USD:** United States Dollar. Currency of the United States of America

**USDA:** United States Department of Agriculture

**USDOL:** United States Department of Labor

## Introduction

Do you ever think about what impact does your consumer behaviour have on the lives of the people who are behind the products that we tend to take for granted? Despite being an ingredient in various products we use every day, palm oil is not a well-known commodity. It may be surprising to you, as it was for us, that if you were to check the label of your favourite chocolate bar, or of the shampoo you are using, you will most certainly find out that it contains palm oil. However, what that label does not contain, and what companies which produce palm oil would prefer not to be known, is the story about the conditions which thousands of men, women and children face while working on palm oil plantations. Our goal is to tell that story, the story about lives behind the palm oil, lives on which we as consumers, whether we realize it or not, have a significant impact.

This research paper will focus upon the working conditions underlying the production of palm oil in Indonesia, one of the two major global producers of this commodity together with Malaysia (USDA, 2014). More precisely we are investigating on the production of palm oil in Indonesia by company Indofood, because we want to find out to what extent its employment conditions are socially responsible, in order to raise awareness about the workers' situation in this industry. The methods to get the required data include review of qualitative and quantitative data provided in academic literature and reports by NGOs, as well as further online information.

The structure of the paper unfolds as follows: firstly, the reader will be introduced to the supply network palm oil, in order to understand the very basics of its production. Then, the focus will be on the conditions that workers of this industry face in the company Indofood, (one of the major palm oil producers in Indonesia). In order to assess social responsibility of the working conditions, we will conduct thorough analysis on three important aspects of ILS that characterize the working conditions: child labor, wages, and labor union rights. Before drawing conclusions, the efforts to have a more sustainable industry of the RSPO will be assessed.

## 1. Difficulties incurred in the analysis

Before digging into the paper, it is worth having an overview of the process of our literature review. The ground idea behind this work was to have an interview with a representative of a NGO which is operative in the sector of sensitization on the topic of palm oil production, in order to gather some original data. In addition to this a review of literature was planned. However, even though we have contacted twenty NGOs around the world (see Appendix 1), and also mobilized our personal networks, nobody was willing to answer our questionnaire. This made us realize how the current situation of many NGOs is an ongoing struggle, where balancing between operational purpose (raising awareness and improving situations around the world) and fighting for survival (raising necessary funds for their operations), puts them in difficult situations. The fact that none of the NGOs we contacted was willing to answer our questionnaire, does not imply that they are not interested to help other researchers, but rather that between their constant efforts to both raise awareness about global issues (through reports, research and communicating to public), and raise necessary funds to finance their operations, they have very little time to spare for projects from which they cannot benefit either on basis of knowledge or funding. This is why the paper presents itself as a meaningful elaboration of existent literature, accompanied with our own conclusions.

## 2. Palm oil: an insight

### 2.1 Some facts and figures about palm oil

Palm oil is a vegetable oil, coming from the fruit of the oil palm plant. There is a distinction among palm oil and palm kernel oil. The first one, is mostly used in edible products (processed foods for instance), whereas the second one is commonly used as a low cost fat in a myriad of goods (more into the industrial sector), varying from soaps to lubricants (GreenPalm, 2016).

The reason why palm oil is the most used vegetable oil in the world, is that it is also the one which costs the less, as oil palm farming has the greatest returns in terms of productivity per hectare among all vegetable oils: it can yield more than 4 tonnes a hectare per year. This means up to ten times more than the other leading vegetable oils such as rapeseed or sunflower oil (SimeDarby Plantations, 2014, pp. 1-8).



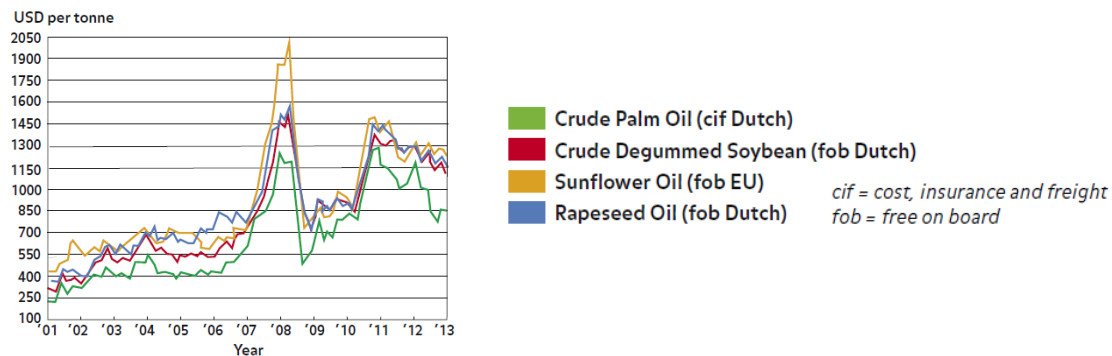


Figure 1: Comparison of prices of different vegetable oils (SimeDarby Plantations, 2014, p.3)

This is why in 2012, palm kernel oil and palm oil represented 32% of the global vegetable oil production and 55% of the world vegetable oil export (SimeDarby Plantations, 2014, p.1). The biggest producers around the globe are Indonesia and Malaysia with respectively productions of 35 and 21 thousand million tonnes per year (USDA, 2016, p. 5). One might say, that the supply chain along which palm oil flows is a multinational multi-tier supply chain which expands across the globe. This is not completely true, as the description given by theorists such as Giddens (as in Foster, 2006, p. 286) defines these kinds of very complex distributions, in a much better, as networks. Foster (2006, p. 286) nicely depicts the effect of globalization on the investigation of the journey that a commodity undergoes nowadays: “Tracking commodities in motion perforce becomes part of a larger strategy designed to identify the collective agency, distributed within a network, that enables action at a distance – one of the hallmarks of globalization (or global modernity)”. The peculiar network underlying palm oil is probably one of the most expanded and complex business networks as of today, considered the various usages that palm oil has.

According to the definition of Hopkins and Wallerstein, we can define palm oil a commodity, because they define a commodity as the outcome of processes that connect actors and activities across space (as in Bair, 2011, p.988). Another definition for commodity, which is often attributed to Marx, describes a commodity as a product intended for exchange, and such products emerge by definition, in the institutional, psychological and economic condition of capitalism (Appadurai, 1994). In the next section of this paper, we analyse the commodity network of palm oil.

## 2.2 The flow of palm oil along the supply chain

Porter (as in Bair, 2009, p. 6) defines value chains as tools for analysing the relationship between various actors and activities within an organization. Supply chains are instead defined as “the network of organizations that are involved, through upstream and downstream linkages, in the different processes and activities that produce value in the form of products and services in the hands of the ultimate consumer” (Christopher, 1992). Having this clear, in the image below, one can recognize the supply chain of palm oil and observe the steps it is composed by (and consequently imagine the value chains of the firms involved in every single link of the supply network).

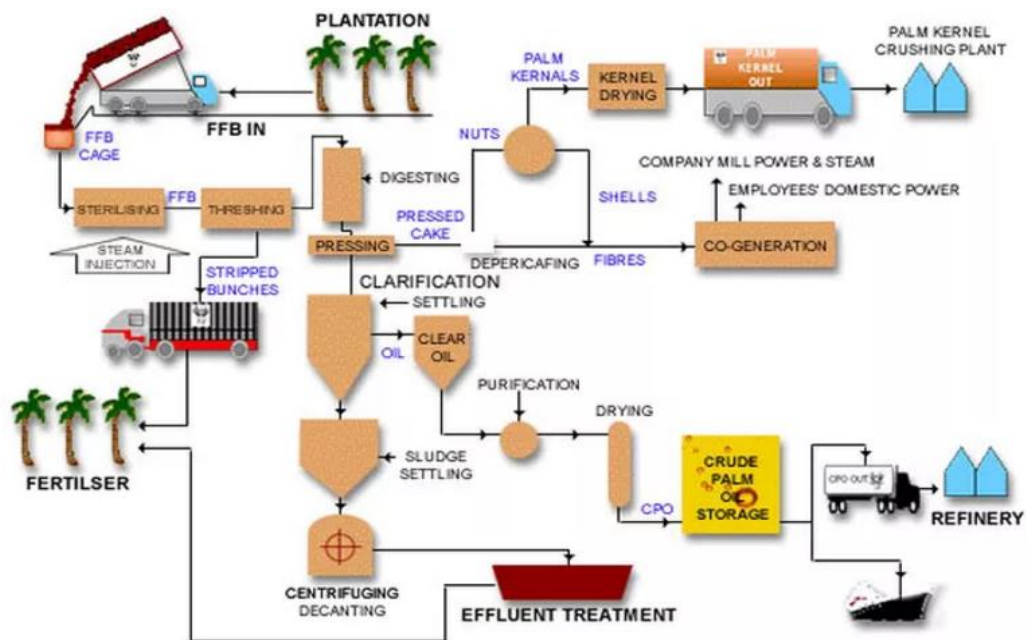


Figure 2: Simplified palm oil supply chain (Schuster Institute Investigative Journalism, 2014)

The actual network is a more complex one, as one has to think that there are thousands of plantations, mills and refineries worldwide, but for the scope of this paper, the following description is enough to provide the reader an idea of the basic process that oil palm fruits undergo to be transformed into palm oil. The fresh fruit bunches are collected from the trees by workers at the plantations, and then they are transported to mills where they are crushed and the “nuts” are separated from the pulp, so that the refiners can press them to extract the oils which are then sold to the most various firms. These firms use the oil to manufacture ingredients like: Palm stearine, palmitoyl oxostearamide, palmitoyl tetrapeptide-3, sodium laureth sulfate, sodium lauryl sulfate, sodium kernelate, and many more (GreenPalm, 2016). These are in turn required for the value creation processes of other industries, for instance,

such as: cosmetics, energy, chocolate, agrochemical, industrial cleaning and lubricants. This means that at the end of the day, palm oil is an ingredient in thousands of products (Unilever, 2016). To note is that this illustration is a simplification of the actual supply chain, which omits technical details and the very complex distribution and processing networks, originated by the plenty of usages palm oil has, which vary from industrial low cost fat to bio-fuel (for more information, see FAO website<sup>1</sup>).

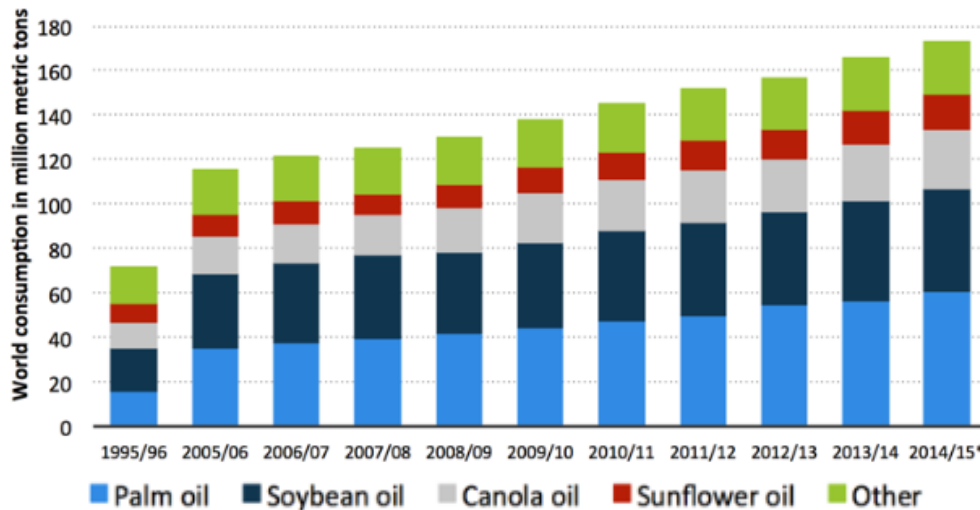


Figure 3: Worldwide consumption of different vegetable oils over the last decade in million metric tons (Riley, 2016)

As this graph shows, the consumption of vegetable oils has more than doubled over the past decade. Palm oil consumption was no exception to this trend. We also want to point out that many consumers are unaware of the fact that palm oil is used in their everyday products, such as foods and cosmetics, and thus, unaware that they are also palm oil consumers as well. For instance, prior to our research on palm oil production, we were completely unaware how many products we are using every day contain palm oil. Therefore, it is important to have an idea about the circumstances under which the development of the palm oil industry is occurring, as this is a first step towards being a responsible consumer. In order to assess whether the working conditions of this industry are socially responsible, we will see if they comply with selected criteria from the ILS.

<sup>1</sup> For further reading see: <http://www.fao.org/docrep/005/y4355e/y4355e04.htm>

### 3. Palm oil biography: a tale of scars

In this section, we provide an insight into the working conditions on the palm oil plantations controlled by Indofood company, to assess whether they comply with ILS. We are going to focus on three aspects which are covered by the ILO and are considered “hot-topics” when talking about palm oil. These are namely: child labor, wages and union rights. The issue of child labor is addressed because, as according to the ILO, child labor is linked to household poverty and “child labor perpetuates poverty across generations by keeping the children of the poor out of school” (ILO, 2014, p. 37). Moreover, this was one of the issues that touched us more on a personal level. Since “Most people work in order to earn money” (ILO, 2014, p. 62), wages of plantation workers are also analysed in this paper. Last but not least, the principle of freedom of association is analyzed, which is at the heart of the ILO’s values, as “The right to organize and form employers’ and workers’ organizations is the prerequisite for sound collective bargaining and social dialogue” (ILO, 2014, pp. 27-28). It is important to mention that since Indofood is one of major palm oil producers in the world, and the biggest in Indonesia (RAN, 2016), this insight will also reflect the conditions workers face on palm oil plantations in general.

#### 3.1 Child labor

In order to understand why, “[...] use of child labor, and conditions amounting to modern day slavery” (RAN, 2014, p.8) can be observed on palm oil plantations all over the world, one must understand what these child workers are used for. To do so, the example of Indofood in Indonesia shall be used. As a report made by the ILRF (2013) suggest, the wage an employee receives at the end of the day is greatly dependent on the amount of palm oil fruits s/he can harvest. Thus to receive a full day's wage, a certain quota set by the company has to be met. This quota however is reported to be so high, that is practically impossible for a single worker to collect the designated amount (ILRF, 2013).

Thus the company, in our case Indofood, is only concerned about the amount of fruits collected by each hired worker, and not about how s/he does so. This gives the worker the opportunity to hire additional workers to fulfil the quota and receive the full and possibly additional wage. This creates and fosters further negative effects, for example the terrible working conditions and the bad representation in unions, which will be discussed in later chapters. As the Indofood employee is free to hire whoever s/he sees fit under whatever

condition, it happens often that children will be hired, because they can be paid a low wage or none at all, if e.g. the worker's children are employed. An unnamed Indofood employee confirms this, by saying “I often bring my children to work... In need money, so I have no choice” (ILRF, 2013, p.6). This has severe consequences for the children employed, as they do not have the same protection from hazardous materials and pesticides, are not represented in workers' unions and are often deprived of school education to work for the family instead. In the light of this, the US Department of Labor has put palm oil from several regions, one of which being Indonesia, on a list containing “Goods produced by Child Labor”(USDOL, 2016).

Indofood HR policies and RSPO principles and criteria, which apply to Indofood as it is a member of the RSPO, both clearly state, the child labor is not allowed and no child should be exposed to hazardous work. Furthermore, the RSPO principle and criteria adds that child labor force may only be used on family farms, thus not directly owned by a RSPO member company, if the children are not exposed to hazardous working conditions and if the working hours do not interfere with the education of the children. Already several loopholes can be detected in these policies. First of all, the corporation is exempted from any liability if the farm the children are working on is a family owned farm and thus responsible for themselves not to hire child workers. (RAN, 2016)

Secondly, the plantations are often located in remote areas, making any access to the public schooling system very difficult. The employers can thus argue that the working hours do not interfere with the education of the children, as they have no education at all. It is to a certain extent also rooted in the local culture that children have to start early to contribute to the family's well being by either helping in the household or earning money. There are also reported instances of companies providing child workers with fake IDs, stating their age to be above 18 (RAN, 2014). In a later report of RAN (2016), this point is strengthened further by interviewing child workers; “Children were observed working on Indofood plantations. One 13-year-old worker and two 16-year-olds were interviewed, as well as a 19 year old who reported working on the plantation since he was 12 years old.” (RAN, 2016, p.26).

However, there are also critiques of these actions e.g. the RSPO takes against child labor. Pye et al. (2016) argue that what the RSPO does is simply trying to find a culprit for the precarious and inhumane conditions these children have to live in. Pye et al. further state that the culprit is too easily found within the large corporations that operate the palm oil farms. What they do not do sufficiently, is trying to get a hold of the workers and the unions present and try to

change the system with the help of those actors therein. Saying that the large corporations have to be against child labor is often giving them a loophole through e.g. the indirect hiring of labor through actual employees. In addition to that, the without a doubt very noble cause of giving children who grow up on plantation a possibility to go to school (RSPO, 2014), is fighting a symptom rather than the cause of child labor exploitation on palm oil plantations.

### 3.2 Wage analysis

Wage level is one of the most important aspects that needs to be considered when assessing labor conditions for any industry. If the wage level is below the living wage, which is defined by Oxford dictionary as “a wage that is high enough to maintain normal standard of living” (Oxforddictionaries.com, 2016), it implies workers are not even able to satisfy their basic needs, and this leads to poverty. The importance of receiving living wage cannot be emphasized enough, and it is one of most important benchmarks when analysing sustainability of employment conditions. In order to make the firms pay sufficient wages, countries often set a legal minimum wage as a legal obligation for firms to fulfil. Now we provide analysis of these benchmarks for our case study, by inquiring the living wage and the legal minimum wage in Indonesia, as well as the wage paid out by Indofood company for workers on palm oil plantations. The wages will be quoted in USD, calculated using market exchange rate between IDR and USD.

The legal minimum wage in Indonesia varies for different provinces and districts. Since Indofood’s plantations are mostly located in Sumatra and Kalimantan (Borneo), owned by its subsidiary, Indofood Agri Resources Ltd. (Indofood Agri Resources Ltd., 2015, p. 19), we obtain values for Sumatra and Kalimantan provinces. The legal minimum wage level ranges between 131 USD – 166 USD per month, depending on province and district (WageIndicator.org, 2016).

When it comes to living wage in Indonesia, we obtained data from a report by Guzi, Kabina and Tijdens (2016), which calculates living wage level based on most basic living expenses which include food, housing, transportation costs, etc. The data show upper and lower bound of living wage, and it also gives different values for individuals and families. The same as for the legal minimum wage, the values depend on region. The living wage for Southern Sumatra is between 166 and 204 USD per month for an individual and between 183 and 235 USD per

month for a typical family consisting of 2-3 children (average number of children derived from national fertility rate is 2.5) and 2 adults.

According to research carried out by RAN (2016), on two plantations in Northern Sumatra, in the district where the legal minimum wage is around 150 USD per month, Indofood pays between 130 and 145 USD to permanent workers for harvesting, while casual workers earn even less. Furthermore, due to the quota system, workers often need assistance to fulfil the quota and earn the wage, so unless harvesters bring family members, they must pay their kernet workers from their own salary. Payment to kernet workers range from 37 to 65 USD per month, which significantly lowers the wage of permanent workers.

The comparison between these values shows following implications:

- The legal minimum wage falls short of the living wage, even in comparison with its lower bound;
- Wages paid out by Indofood to permanent workers on plantations do not even satisfy legal requirements and especially not living wage requirements;
- Earnings of kernet workers and permanent workers who must pay their kernet correspond to approximately one fourth and one third of the living wage for typical family, respectively.

Undoubtedly, wages for workers on Indofood's palm oil plantations are extremely low. For situation to improve and workers to get sufficient earnings for their basic living expenses, either Indofood must give up a higher portion of its profit, or revenues must be increased by increasing price of palm oil. Here we provide, on annual level, estimated increase in wage that workers would need to receive to reach the lower bound level of living wage for typical family, the portion of profit made from production of palm oil that Indofood's subsidiary IndoAgri would have to give up to pay out living wage, and the increase in price of crude palm oil for living wage to be paid out if IndoAgri's profit remains the same. The calculation is approximation based on data from various sources (see Appendix 2).

- 1) Required increase in annual wage expenses: 22'176'000 USD
- 2) The portion of IndoAgri's profit from palm oil production: 12.81%
- 3) Required increase in price for profit to remain the same: 22 USD

It is important to note that price increase of 22 USD should not be considered large or unrealistic as it would be 3.3% increase of the current price, and especially if we take into account that price for CPO in 2012 was almost two times higher (Pye et al., 2016, p. 4). However, even in times when prices were high, workers have been receiving the same wages as today, which indicates this problem is unlikely to be solved without external pressure.

The detailed calculations for this section and original data in IDR are provided in the Appendix 2.

### 3.3 The role of the labor unions

Another highly important aspect of our analysis is the right of workers to form and join labor unions in order to ensure their interests are respected and protected. This right is part of the Universal Declaration of Human Rights and thus is subject to all people. Adding to this not only universally accepted constitutions as the ILO and the ICCPR but also the Indonesian Law states: “every worker/ laborer has the right to form and become member of a labor union” (ILO, 2004, p.29). The object of Labor unions is to promote and protect the interests, mainly regarding wages and working conditions, of the workers and union leaders towards the employer by bargaining and using its collective power e.g. strikes. (Businessdictionary.com, 2016)

But by looking closer into how labor unions work in Indonesia it has been obvious that companies such as Indofood do not fulfill these human rights.

One particularity of the Indonesian unions is that, based on the history of the country, workers are often forced to join one particular union, which acts in the employers’ interest. These unions are commonly known as “yellow unions”. (Botz, 2001, p. 177)

In the following we will analyze two cases in which these basic human rights have been violated and try to search for solutions to improve the bad conditions employees have to endure.

“In December 2013, workers at PT Indofood sukses makmur, one of the largest food packaging companies in Indonesia, sought a wage increase for 2014 in line with the minimum wage increase of USD 39. However, management refused to consider the wage increase requested, instead raising wages by just USD 8. Further, the company decided to lay-off 450



labour hire workers who sought permanent employment with the company in accordance with the Indonesian Labour Law No. 13/2003.

To protest the company's actions, workers decided to withhold their labour on 11 March 2014. The strikes and related protests were lawful and peaceful. In response to the strike and protest, the company hired special police, the Brimob – Brigade Mobile – usually used in counter-terrorism raids and riots. In this case, however, the Brimob attacked unarmed Indofood workers with weapons and water cannons.

While confrontations and intimidation tactics had been deployed through June 2014, the level of police brutality against the workers was dramatically increased on 2 July 2014. Following provocation by the police squad, violent clashes occurred between the police and workers. The police fired tear gas into the crowds and hit, kicked and pelted workers with concrete blocks and stones. Fifty workers were injured, twenty seriously and three required extended hospitalisation. The police also damaged and stole parts of the workers' motorbikes, and arrested six workers as a result of the clashes." (ITUC, 2014)

Looking at these cases it is obvious that the rights of workers and independent unions are not treated as ILS demand. We see the main cause in the remains of the Suharto regime, where the unions were state-run and did not represent the interest of its members. The companies still act like unions should represent their interest and respond to uprisings with force. In both presented cases the company was supported by the police or the military which lets us believe that the main problem here is political and the workers and independent union rights should be supported and protected by the government.

The investigation into issues of child labor, low wages and lack of union rights shows an alarming situation that workers face in company Indofood, as well as in the whole industry. We have shown that in all the criteria we have examined, working conditions do not comply with the ILS. Before drawing final conclusions, the next chapter addresses a campaign by RSPO which aims to improve conditions for workers in the palm oil industry.

#### 4. RSPO: a campaign for sustainable production or a marketing strategy?

The focus of this section is the sensibilization campaign conducted by NGOs and by the RSPO. The Roundtable on Sustainable Palm Oil (RSPO) does not represent a new certifiable standard of non-exploitation, but rather a concrete resource for implementing responsible palm oil production. Their mission is concentrated on three main pillars, namely workers, environment and profit of grower on a global level. However, the scope of the paper restricts the analysis on the working condition of the Indonesian employees. RSPO supports individual workers with a complaint system, which is especially used in Indonesia and protects local communities from abuse of power by multinational companies. Moreover, as stated by the following image, the organization promotes better livelihoods, children education and the reduction of harmful pesticides. (RSPO, 2014; RSPO, 2015; International Union of Food and Berne Declaration, 2009).

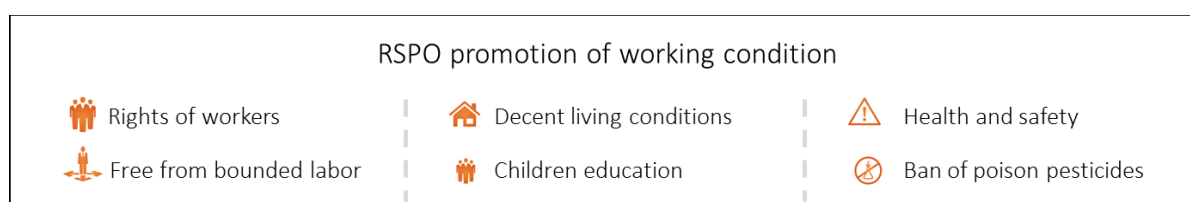


Figure 4: RSPO promotion of working conditions (own depiction)

In order to guarantee those standards, the RSPO introduced a certification program (CSPO) based on the Green Palm Trading Platform. The certification guarantee traceability (through eTrace) of the mill or plantation, and the commitment of the producer to respect the RSPO guidance on implementing responsible palm oil production (Green Palm, 2016). This implies that the grower receiving CSPO is not obliged to quit the use of harmful pesticides, or the abuse of workers; however, the producer must state his commitment to improve for the future. Certified growers receive one Green Palm Certificate for each tonne of oil produced. Those certificates can be afterwards sold to manufacturer and retailers, that can claim to support sustainable production of palm oil. Providing this possibility, also small producer could receive economic benefits directly without intermediaries (RSPO, 2014). The CSPO program is indeed a success. The demand of product certificated CSPO increase sharply at the expenses of the non-certified products (RSPO, 2014; RSPO, 2015, p. 12). However, despite the great progresses, some controversies brought up from stakeholders should still be addressed.

NGOs and supporters often complain on the RSPO's reliability and transparency. (BMO, 2016) For example, RSPO provide two different type of certifications: certified and mixed. The latter one neither assures that no exploitation has occurred, nor it certifies that all of the oil in the packages satisfies RSPO requirements. (RSPO, 2014, p. 12) However, it can still be labelled with the RSPO trade mark.



*Figure 5: RSPO Logo (RSPO, 2016)*

Another problem of transparency result from the asymmetric information. As it is written in their logo, RSPO sells its label as “Certificated Sustainable Palm Oil” (figure 5, RSPO, 2016). However, its sustainability concept is focused on the long term. Importantly, it does not imply that the current production is ethical or legal. For example, as the auditors of RSPO reported in their assessment, KLK (a company that produces palm oil in Indonesia) in 2012 neither had the appropriate infrastructure, nor did it have an adequate security system which would guarantee safety at the workplace (Lestari, 2012). Moreover, the report also stated that workers were payed “under minimum wage” (Lestari, 2012, p. 44) and that there was general dissatisfaction due to “criminality to workers and arrests of workers” (Lestari, 2012, p. 50). However, already at that time, they were classified “certified sustainable” growers. (RSPO, 2016) Therefore, stakeholders in general are critical on the principles and criteria of the CSPO. However, their report is also criticized because “there were incidents where the auditors provided fraudulent assessments to cover up the violations of the RSPO standards” (BMO, 2016, p. 2). For instance, the RAN, in its analysis, shows that the situation in Indonesia is worse than it is described from the assessment report of the audit of RSPO. The RAN organization describes the working condition as “Modern Day Slave Labor” (RAN, 2014, p. 9) where workers are “held captive in harsh conditions with no pay for months or years on end” (RAN, 2014, p. 9) and were they are “held at the plantation where they were locked in barracks at night” (RAN, 2014, p. 9).

Furthermore, the RSPO “does not have a strong record of enforcement” (BMO, 2016, p. 2). In 2010, three workers (including a 14-year-old boy) exposed their situations to the KLK managers during the RSPO meeting. The results of that courageous act of exposure by the workers were insignificant: the RSPO representatives only encouraged the contractor “to pay their workers” (RAN, 2014, p. 9). NGOs and other stakeholders exposed “criticisms [...] about the existing weak standards” (BMO, 2016, p. 2) and were highly disappointed because no sanctions from RSPO has been enforced on the company (BMO, 2016). Also, in the RSPO assessment report, the same problems were reported again 4 years later (Lestari, 2016).

In 2013 the situation was already such extreme that WWF “no longer considered RSPO certification a sufficient proxy for responsible sourcing” (Seymour, 2014, p. 22). As a response, RSPO launched a set of voluntary standard called RSPO NEXT, which focus on respecting human rights and the environment, and RSPO RED, which provides stricter duties and requirements also for the grower’s suppliers (RSPO, 2016). Until now, those new standards haven’t been criticized. Thus, we assume that this could be a possible step towards the abolishment of labor exploitation. Although over the last year “RSPO has become increasingly polarized due to a mismatch of the expectations of producers on the one hand and international NGOs on the other” (Seymour, 2014, p. 21), stakeholders generally support the effort of RSPO and strongly encourage it to increase transparency and to consistently push growers towards a sustainable production.

## 5. Discussion on main findings

Companies and organizations address the problem of working conditions, but intentionally leave loopholes because they are mainly interested that the quotas are met. Companies and even the government counteract instruments such as labor unions that should prevent conditions like this to arise. Although organizations like the RSPO are committed to improve the working conditions, the requirements for their certification for sustainable palm oil are not only very in-transparent, but it also rewards producers that promise to be sustainable someday, while they are clearly not at the time of receiving the certificate. This raises the issue of companies using RSPO certification, which they obtained based on a promise that they will improve conditions in the future, as a marketing tool, despite the fact that they currently do not comply with RSPO requirements.

During our research, we learned of cases in which the employees had no support from unions or their own government. In some cases, these unions and the government even took part in the mistreatment, e.g. military stopping strikes. This may imply quid pro quo relationship between government and companies, as many politicians are financed by private sector, not to mention the possibility of corruption. We believe the government should play a larger role in regulations and control of companies, farmers and organizations. Specifically, an increase of the minimum wage and compulsory schooling should be addressed. The freedom of association (already national law) should be enforced in the interest of employees not of the companies.

However, we also see the struggle in administrating multi-tier multinational supply chains. Legal restrictions on the activities of multinationals are a delicate and complicated issue as often, the companies are able to find ways around due to their power and influence. In our view, the business world should gradually move towards the concept of “conscious capitalism”, which promotes the idea of “purpose-driven business” and is not only considering the profitability, but also focuses foremost on fulfilling the deeper purpose of their organizations and creating value for all of their stakeholders. This movement is being promoted, among others, by Dr. Raj Sisodia, who is an international speaker on organizational philosophy (Sisodia, 2016).

Finally, we asked ourselves what can we as consumers do to help improve the lives of palm oil workers. We think that the best way would be to look out for RSPO certified products. The certification process might show little effect at the moment but we also learned that the new campaigns (RSPO NEXT, RSPO RED) set better standards that clearly are a step in the right direction. If consumers show higher demand for these certified products the respective producers, e.g. Indofood, have to adjust to the new demand and to the standards of the certificates.

## 6. Conclusion

To sum up, palm oil is the most efficient crop to produce vegetable oil and therefore experiences a great demand all over the world in multiple industries. Indonesia is one of the biggest palm oil producers but sees a lot of difficulties in environmental and social aspects.

Throughout this paper the situation in which Indofood's palm oil plantation workers are trapped in is showcased, and these represent reflection of the situation in the whole industry. The quota system forces workers to hire helping hands, often being the workers' family members, to earn the wage. This system, while being most profitable for the company, has atrocious consequences for the workers' families. The workers themselves have very little protection against accidents, poor or any health insurance, despite being exposed to hazardous chemicals. In addition to that, they are often not able to form unions to represent their voice in the firm's decision-making process. If there are unions in place, the firm itself often controls these and the workers automatically are part of that one union. The wages paid, are not enough to enable the worker's family to have a healthy life or to pay for the children's tuition. Thus, the next generation is born without a chance of liberating themselves from the shackles of poverty and oppression. To this regard, the RSPO which is supposed to improve the working condition does not play a prominent role in the present. However, stakeholders are optimistic on the future and especially on their new programs.

To conclude, the formal answer to our initial research question is thus that the working conditions in this industry are not socially responsible at all, as they fail on all of the criteria of the ILS we have analysed, due to unethically low wages, exploitation of child labor, and lack of right to form independent labor unions.

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## Declaration of Authorship

“We hereby declare:

- That we have written this work on my own without other people’s help (copy-editing, translation, etc.) and without use of any aids other than those indicated;
- That we have mentioned all the source used and quoted them correctly in accordance with the academic quotation rules;
- That the topic or parts of it are not already the object of any work or examination of another course unless this has been explicitly agreed on with the faculty member in advance;
- That our work may be scanned in and electronically checked for plagiarism. “

Gianmarco, Zorloni

Harpreet, Perhar

Julian, Krauth

Leonardo, Ehnimb

Milan, Kuzmanovic

## Appendix 1

### Q&A: The Production of Palm Oil in Indonesia

#### Labor unions:

There are a few cases in Indonesia where employers who prohibited independent labor unions were sentenced by court. Is the government treating large companies such as Indofood differently and ignore violation regarding labor union law?

We learned these employer/state-run labor unions are survivors of the former dictatorship. Are there no political efforts to eliminate these circumstances?

If an employee is dismissed because of entering an independent labor union is it hard for him to get a new job?

#### Labor conditions:

What are some hazardous conditions that child workers especially are exposed to?

Is there any difference in working conditions for regular employees and “kernet” (informal) workers?

In what (negative) way is the quota system for plantation workers fostering negative working conditions?

Are the conditions for men and women they same? Or does this industry imply different situations for both of them?

#### Wages:

What information do you have about wages in palm oil industry in Indonesia, and in particular about wages of the Indofood company? How are they related to the concept of living wage and legal minimum wage?

Do you have information about quantity of sales, price of crude palm oil and production costs in palm oil industry in Indonesia in general? And for the company Indofood in particular?

#### Impact of the RSPO:

The RSPO and ISPO claim to have reached important goals in making the production of crude palm oil more sustainable. In the light of how the certification system works for the RSPO (possibility to buy and sell the certificate so that the money will be used by RSPO to enhance conditions in the industry), what impact do you believe the RSPO really had on the working conditions in this industry?

How is the money collected by trading of CSPOs under the GreenPalm program used? Is it helpful to foster sustainability in the production of palm oil or is it just a source of profit?

What is in your opinion the best way to address the problem of unethical crude palm oil production?

How is your organization active in this field?

#### General questions:

Do you have the transcript of an interview with a worker in the palm oil industry in Indonesia? If yes, could we please have a copy of it?

We would like to thank you very much for your precious collaboration.

Sincerely,

Harpreet Perhar, Gianmarco Zorloni, Leonardo Ehnimb, Julian Kraut, Milan Kuzmanovic

### The organizations we have contacted

NGO's for palm oil	Status
<a href="https://www.facebook.com/palmoilproductsinAustralia/?fref=ts">https://www.facebook.com/palmoilproductsinAustralia/?fref=ts</a>	texted on website contact form
<a href="https://www.facebook.com/InPOP.id/?fref=ts">https://www.facebook.com/InPOP.id/?fref=ts</a>	texted on website contact form
Sustainable Palm Oil Investor Working Group (IWG)	texted on website contact form
Chain Reaction Research (CRR)	email not working
Roundtable on Sustainable Palm Oil (RSPO),	texted on website contact form
Friends of the Earth,	texted on website contact form
Greenpeace,	emailed at: schweiz@greenpeace.org
Environmental Investigation Agency,	emailed at: ukinfo@eia-international.org
Rainforest Alliance Network,	emailed at: info@ra.org
Forest Peoples Programme	texted on website contact form
Oxfam International,	texted on website contact form
Rainforest Action Network (RAN)	texted on website contact form
Malaysia Sustainable Palm Oil (MSPO)	texted on website contact form
Certified Sustainable Palm Oil (CSPO)	texted on website contact form
United Nations Environment Programme	emailed at: unepinfo@unep.org
Lucas Straumann, Director, Bruno Manser Fund	texted on website contact form
Kiki Taufik, Greenpeace	not reachable
Pacific (PANAP)	texted on website contact form
Norman Jiwan, TUK Indonesia	Got Q&A (in folder)
<i>Jl. Tegal Parang Utara No 14</i>	emailed at: informasi@walhi.or.id
Matthias Diemer (friend of Massimo)	emailed at: Matthias.Diemer@wwf.ch
Claudine Largo (friend of Lea)	emailed at: claudine.largo@greenpeace.org

## Appendix 2

The following table shows original data on legal minimum wage per month provided by WageIndicator.org (2016):

Province	Minimum wage in IDR	Minimum wage in USD
Northern Sumatra	1'811'875	136
Southern Sumatra	2'206'000	166
Eastern Borneo	2'161'253	162
Western Borneo	1'739'400	131
Central Borneo	2'057'550	154
Southern Borneo	2'085'050	157

Data for living wage level per month in Southern Sumatra are provided in report by Guzi et al. (2016):

Southern Sumatra living wage	Individual		Typical family	
	Low	High	Low	High
Living wage in IDR	2'208'200	2'722'100	2'435'600	3'131'300
Living wage in USD	166	204	183	235

The market exchange rate used to convert the original data from IDR to USD is obtained from website: <http://www.xe.com/currencyconverter/>, and it amounts to 13'324 IDR per USD.

The estimates for wage increase needed to reach the level of living wage, portion of IndoAgri's profit from palm oil production required to finance this increase and required increase in price needed to finance this increase if profit would remain the same, are calculated using approximated values under certain assumptions.

First, we calculate increase in annual wage expenses needed to pay out living wage to workers:

Wage paid to harvester on IndoAgri's palm oil plantation is obtained from RAN (2016) report. Their investigation of the wage level on plantation in Northern Sumatra says that in a district with minimum wage of 150 USD per month, permanent workers receive wage in range between 130 and 145 USD per month. For the sake of simplicity, we assume all permanent workers receive 140 USD. We also do not take into account sharing the wage with kernet workers, in which case wage would be significantly lower. So wage level paid to permanent worker is approximately 140 USD.

Number of workers employed on IndoAgri plantations is calculated using rough estimate that plantation employs 1 worker per 4 hectares of oil palm (RAN, 2016, p.13). So, as IndoAgri has 246'360 hectares of oil palm (Indofood Agri Resources Ltd., 2015, p. 6) it employs around 61'600 workers.

Living wage for Northern Sumatra province is not in the data, but we can reasonably assume that relation between minimum wage and living wage is the same as in the Southern Sumatra, for which we have both data on living and minimum wage, because both living and minimum wage are calculated according to price levels. In Southern Sumatra minimum wage is 166 USD per month, and the lowest living wage for typical family is 183 USD per month. The difference is around 20 USD. In Northern Sumatra minimum wage is 136 USD per month, but for district investigated by RAN it is 150 USD. If we assume the same difference, the lowest living wage for typical family in this district would be around 170 USD per month.

So, we obtain the first figure – required increase in annual wage expenses for living wage to be paid out to workers, by using the following calculation:

Annual increase in wage expenses = Number of workers x Increase in wage for a single worker (difference between living wage and current wage) x Number of months = 61'600 x 30 USD x 12 = 22'176'000 USD

Second, we compute the portion of profit from palm oil production which is needed to finance wage increase:

The total revenues of IndoAgri are 13'835 billion IDR which is around 1' 040 million USD (Indofood Agri Resources Ltd., 2015, p. 18).

The gross profit is 3'350 billion IDR, or around 250 million USD (Indofood Agri Resources Ltd., 2015, p. 18), which means expenses represent three fourths of revenues.

Revenues from production of palm oil are equal to: Quantity of palm oil x Price of palm oil.

Quantity produced by IndoAgri annually is 1 million tones CPO (Indofood Agri Resources Ltd., 2015, p. 23).

Current market price of CPO is 691 USD per ton: (Downloaded on 4<sup>th</sup> of December 2016 from: <http://www.indexmundi.com/commodities/?commodity=palm-oil&months=60>).

So, revenues from palm oil production amount to 691 million USD. If we assume that gross profit margin ratio is the same for palm oil production sector as for the whole business, then expenses for production of palm oil are three fourths of revenues, which is around 518 million USD.

Hence, the gross profit from palm oil production equals to 173 million USD.

Now we obtain the second figure – portion of profit from palm oil production required to finance wage increase, by using following calculation:

Portion of the profit = Annual increase in wage expenses / Profit from palm oil production = 22'176'000 / 173'000'000 = 12.81 %

Third, and final, we calculate the required increase in price of palm oil needed to pay out living wage to workers if profit remains the same:

For living wage to be paid out, with profit remaining the same, we need to increase revenue by increasing price. The increase in annual wage expenses must be equal to increase in revenue.

We obtain third figure – the required increase in price of palm oil needed to pay out living wage to workers if profit remains the same, by using following calculation:

Increase in price per crude palm oil tonne = Annual increase in wage expenses / Quantity of crude palm oil produced annually in tones = 22'176'000 / 1'000'000 = 22 USD approximately