

Expansion of palm oil in Western and Central Africa



Presentation of Chain Reaction Research
at LANDac International Conference
30 June 2017



Content

- Development of palm oil cultivation
- Environmental & human rights issues
- New frontiers: SE Asian companies moving to West & Central
- Rights to land & resources
- FPIC & no deforestation policies
- Financial performance at risk
- Risk mitigation



Palm oil: From Africa to the World

- Oil palm originates from Africa
- Harvested by subsistence smallholders in West & Central Africa from wild or semi-wild trees
- Full domestication in early 1900s: new varieties introduced to colonial Central Africa, first to Cameroon & today's DRC.
- In post-colonial years, focus moved to mining & petroleum exploitation



Palm Oil: Cultivation in Southeast Asia

- 1960s: Malaysia pioneered large-scale industrial cultivation
- Increasing global demand: expansion to Indonesia
- Indonesia & Malaysia today: 85% global share
- Mostly private enterprises
- Small share managed by smallholder farmers

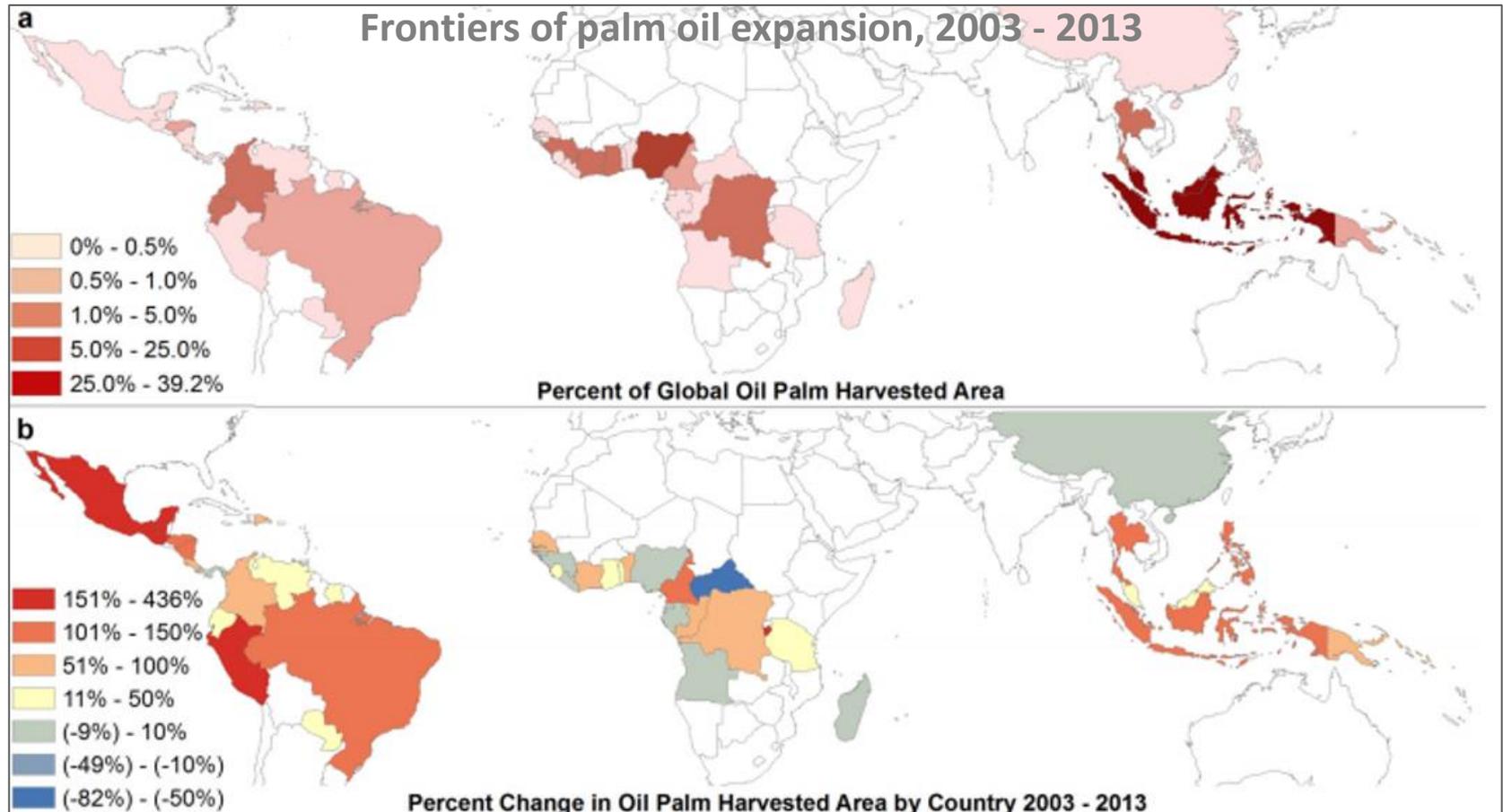


Value Appropriation vs Value Creation

- Plantations in carbon-rich tropical forests & peatlands
- Severe haze & related health problems, deaths
- Indonesia among world's largest GHG emitters:
 - 85 % from forest destruction & degradation
- Serious human rights violations:
 - child & forced labor
 - discrimination of migrant workers
 - Lack of FPIC
- Full potential benefits for economy & livelihoods in SE Asia not realized



Moving to New Frontiers



Note: a - Percent of FAO reported total global oil palm harvested area in 2013;

b - Percent changes in FAO reported oil palm harvested area by country from 2003–2013.

Source: Vijay, V. et al. (2016, July 27), "The impacts of oil palm on recent deforestation and biodiversity loss", *PLoS ONE*, 11 (7): e0159668.

Agricultural Frontiers: Western & Central Africa

- Smallholders account for up to 90% of regional production
- New wave of international palm oil cultivators, attracted by:
 - large areas of uncultivated arable land
 - favorable soil and climatic conditions
 - governments providing easy access to land
 - low cost of concessions
 - weak governance and poor environmental & social oversight
 - rising incomes expected to sustain growing demand
- ~1.8 million ha made available for palm oil in past decade
- High-levels of biodiversity & High Carbon Stock (HCS) forests

Agricultural Frontiers: Western & Central Africa

Golden Agri-Resources (SG)

- Oil palm on 486,000 ha in SE Asia
- Lead investor Verdant Fund (UK), subsidiary Golden Veroleum (GVL) in Liberia:
- 2010: signed 65-year concession for 220,000 ha within total of 350,000 ha.
- Outgrowers' program: 40,000 ha.
- 2015: 12,269 ha planted.

Kuala Lumpur Kepong (MY)

- Oil palm on 200,000 ha in SE Asia.
- KLK controls JV with Equatorial Palm Oil (PAL, UK): Liberian Palm Development (LPD).
- 2008: 50-year concessions for 21,757 ha, expansion areas totaling 66,773 ha.
- Outgrower programs: 25,797 ha.
- 2015: 7,474 ha oil palm planted.

Sime Darby (MY)

- Oil palm on 513,000 ha in SE Asia.
- 2009: 63-year concession agreement for 220,000 ha
- 2015: Planted area 10,518 ha
- 2016: self-imposed moratorium creates delays for expansion plans for 6,000 ha of oil palm, 4,000 ha of rubber.

Olam (SG)

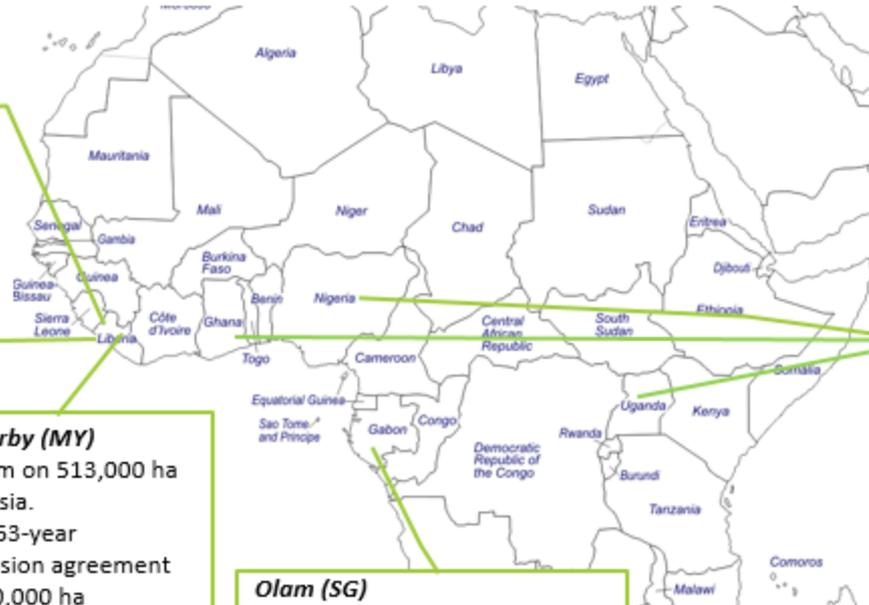
- No own oil palm in SE Asia.
- 2010: 60/40-JV for palm oil & rubber with Gabon gov. 100,000 ha planned over 2 phases.
- 2015: 31,500 ha oil palm & 7,500 ha rubber planted.
- Smallholder program on 30,000 ha planned in 2nd phase.

Wilmar (SG)

- Oil palm on 224,000 ha in SE Asia.
- 16,900 ha planted in Africa.
- JVs & associates: 46,000 ha in West Africa and Uganda.
- Directly manages 31,428 ha under smallholder schemes in Indonesia and Africa.
- JVs & associates: 148,000 ha in Africa.
- Ghana: 77%-stake in Benso Oil Palm Plantation (BOPP). 4,666 ha under production.
- Nigeria: PZ Wilmar JV. Plans for 50,000 ha oil palm. 2015: 30,000 ha planted.

Felda Global Ventures (MY)

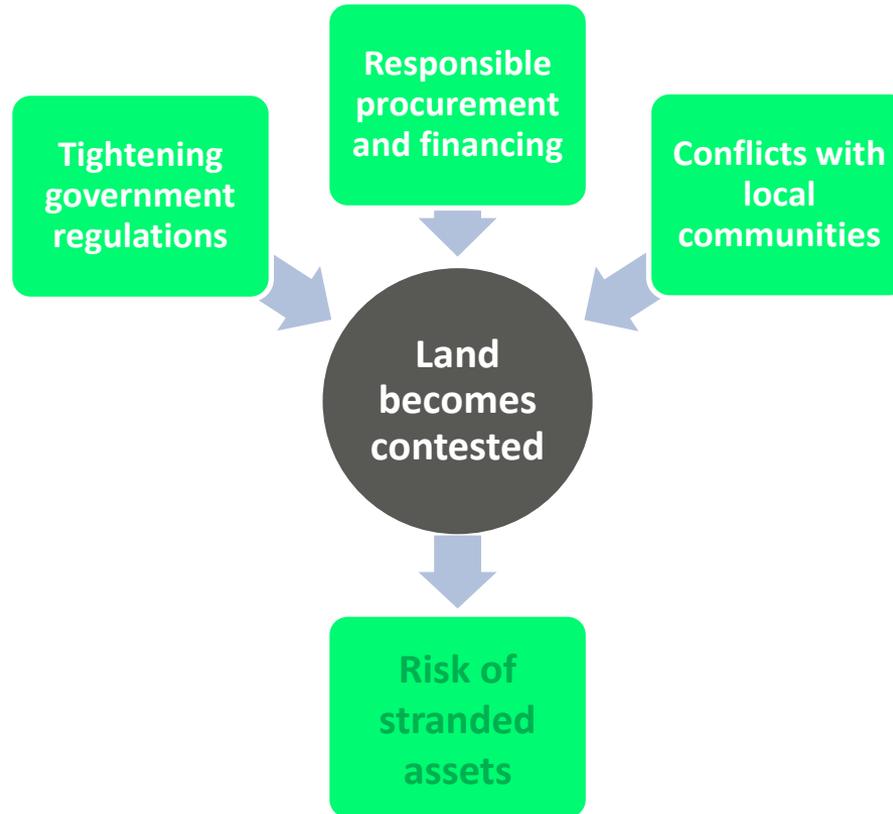
- Oil palm on 333,000 ha in SE Asia
- Seeks upstream expansion, reviews M&A options in Africa.



Weak Land Tenure Regimes

- **Uncertainty of land titles & lack of clarity around customary & legal ownership: conflicts with customary rights-holders**
- **Up to 90% of SSA's land area is untitled → no legal owners**
- **Formal land ownership documentation often absent**
- **Vast majority of forested land claimed under customary rights by at least one ethnic group or community**
- **Some legislative frameworks in principle recognize customary land rights → oblige investors to obtain FPIC & compensate**
- **Uncertainties about implementation can aggravate land tenure insecurity and property conflicts**

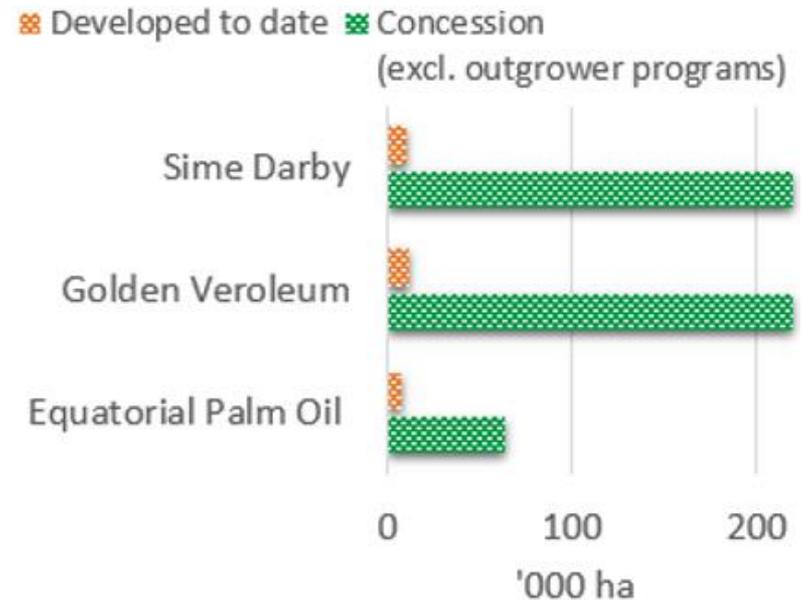
Risk of Stranded Assets



Lessons learned: Land Rights Conflicts in Liberia

- No central land registry, but:
- FPIC is key principle in 2009 Community Rights Law with Respect to Forest Lands
- New land policy in 2013
- Draft Land Rights Act under discussion but still not adopted
- Recognition of customary rights in Liberian legislation is undergoing improvements
- Communities are increasingly aware of their rights.

Liberian concession areas vs. area developed 2016



Recognition of Rights to Land & Resources

- Insecure land tenure → difficulty to ensure uncontested land rights → risks for companies
- FPIC & fair, equitable, legally enforceable agreements:
 - Critical importance to forest-dependent communities
 - Provide dependability for companies

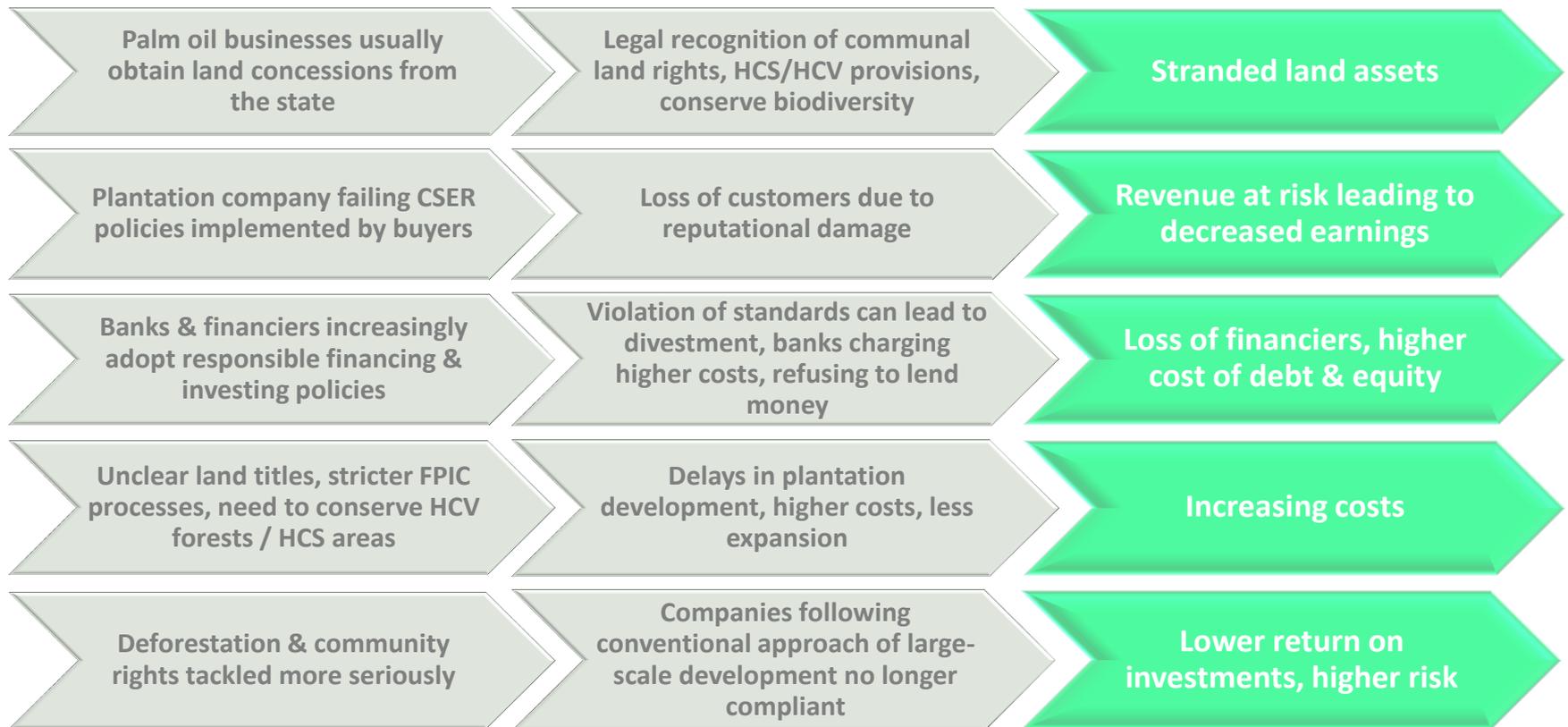


FPIC & No Deforestation Policies: Lessons Learned

- **FPIC requirements:**
 - Strengthened under Liberian law + under RSPO
 - Companies in breach risk losing RSPO certification
- **Market pressures:**
 - Government & court rulings, investor & buyer NDPE policies could force companies to cease land bank development
- **Paris Agreements, Norway partnerships with several African & Latin American countries:**
 - resources to address role of deforestation in climate change
- **Institutional investors:**
 - divesting from corporations driving deforestation.

Financial Performance at Risk

Corporations & financiers disregarding environmental & social issues in industrial palm oil in frontier markets face risks



Risk Mitigation Can Enhance Returns

- Palm oil development in Africa could have positive impact if done well
- Models where companies provide technical & financial support to smallholders may be beneficial in economic, social & environmental terms
- Companies could help to ease impasses that currently block more efficient palm oil production
- Enter into balanced cooperation with local communities

Thank you!

More information:

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