Expansion of palm oil in Western and Central Africa

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• 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
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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

Frontiers of palm oil expansion, 2003 - 2013

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.
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

- Tightening government regulations
- Responsible procurement and financing
- Conflicts with local communities

Land becomes contested

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.
Recognition of Rights to Land & Resources

- Insecure land tenure $\rightarrow$ difficulty to ensure uncontested land rights $\rightarrow$ risks for companies

- FPIC & fair, equitable, legally enforceable agreements:
  - Critical importance to forest-dependent communities
  - Provide dependability for companies

Recognition & respect of rights to land & resources $\rightarrow$ Increased transparency by investors over contracts & deals $\rightarrow$ Precondition for avoiding or solving land conflicts
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

- Palm oil businesses usually obtain land concessions from the state
- Legal recognition of communal land rights, HCS/HCV provisions, conserve biodiversity
  - Stranded land assets

- Plantation company failing CSER policies implemented by buyers
- Loss of customers due to reputational damage
  - Revenue at risk leading to decreased earnings

- Banks & financiers increasingly adopt responsible financing & investing policies
- Violation of standards can lead to divestment, banks charging higher costs, refusing to lend money
  - Loss of financiers, higher cost of debt & equity

- Unclear land titles, stricter FPIC processes, need to conserve HCV forests / HCS areas
- Delays in plantation development, higher costs, less expansion
  - Increasing costs

- Deforestation & community rights tackled more seriously
- Companies following conventional approach of large-scale development no longer compliant
  - Lower return on investments, higher risk

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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!

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