Hidden Land, Hidden Risks?

The need for improved corporate reporting of land holdings associated with palm oil production

March 2017

spott.org/palm-oil/landbank

"SPOTT's analysis provides upstream transparency for oil palm growers, their investors and financiers, and their downstream palm oil buyers. The palm oil industry has hidden material financial risks. These risks may be unknown to investors, analysts, and financial institutions. This report provides a snapshot of some of these risks and issues specifically related to a lack of accurate and transparent reporting on land holdings. This report may enable analysts to improve their financial modelling, such as revenue-at-risk forecasting, so as to better include these hidden material ecological and social risks of the underlying plantation asset."

Gabriel Thoumi, CFA, FRM, Director Capital Markets, Climate Advisers

8.6 million hectares
Total oil palm landbank reported by 50 companies assessed on SPOTT

35 out of 50 companies
fail to disclose their areas not yet planted with oil palm

28 out of 50 companies
report inconsistent figures on their land holdings

900,000 ha — 12 times the size of Singapore — are of unclear use

Contents

3 Executive summary, key findings and recommendations
4 Introduction, social and environmental impacts
5 The importance of transparent reporting on land holdings
5 Analysis and discussion
6 Land holdings of SPOTT assessed companies
7 Differences in reporting
8 Conclusions
10 Methodology; About SPOTT and ZSL
11 References

ZSL thanks the UK and Norwegian governments and the David and Lucile Packard Foundation for supporting the development of SPOTT and this report. This material has been part-funded by UK aid from the UK government; however, the views expressed do not necessarily reflect UK government policies, nor those of any other donors.

UKaid from the British people

Executive summary

Palm oil companies are entrusted as stewards of vast areas of land, yet transparency around land holdings is poor. The lack of corporate reporting on the full extent and locations of land under a company's management inhibits accountability and masks environmental and social risks.

Improved reporting is needed for stakeholders to effectively monitor and manage risks. It ensures that commitments and progress towards more responsible land management are understood in the context of the land holdings themselves.

Corporate transparency can demonstrate good governance, due diligence, leadership and openness.

This report provides an analysis of company-reported data on land holdings to identify gaps and inconsistencies in figures and to highlight recommendations for companies, their investors and other stakeholders.

Key findings

ZSL research on 50 of the world's largest palm oil companies assessed on SPOTT finds there are no clear and standardised definitions for reporting on land holdings and reveals significant variation in consistency and detail of company-disclosed data. This results in the masking of potential social and environmental risks.

- The total land for oil palm of the 50 companies is estimated at 8.6 million hectares (ha).
- The companies report 5.5 million ha of planted estates and 1.1 million ha planted by scheme or plasma smallholder areas.
- Nearly 900,000 hectares – an area more than 12 times the size of Singapore – are of unclear use: areas not clearly stated as being planted, unplanted, set aside for conservation, reserved for infrastructure or other uses.
- Inconsistent figures are reported by 28 out of 50 companies (56%).
- There is a lack of transparency in reporting on areas that can be most associated with current and future environmental risks, for example:
  - Only 14% of companies report on infrastructure areas.
  - Only 30% report unplanted areas.

Recommendations

- There is a need for clear definitions for the categories of land under management against which companies should report, including total landbank, planted areas, unplanted areas, smallholder areas, conservation set-asides, areas for infrastructure, and other uses.
- Companies should provide regular, consistent reports (with relevant dates) on areas of land under management. This allows for closer comparability, tracking changes over time, and improved risk management by investors and other stakeholders.
- The Roundtable on Sustainable Palm Oil (RSPO) and other standard-setters should play a role in developing definitions and ensuring high quality reporting of data on land holdings.
- Spatial data, alongside reported data on the extent of land holdings, allows for greater accountability, measurement, communication of progress, and management of risks.
- ZSL urges shareholders and other stakeholders to drive transparency by requiring their investees and clients to coherently disclose information in relation to their land holdings.

Introduction

Growing demand for palm oil has resulted in an increase in production from 17.5 million tonnes in 1996 to 64.5 million tonnes in 2016.[1] As production has increased, so has the area of land used for plantations, with this trend set to continue.

Oil palm plantations are estimated as currently covering between 20 and 27 million hectares (ha) worldwide [2,3,4] and are expected to reach 17 million ha by 2025 in Indonesia alone.[5]

Environmental and social impacts

Oil palm is grown in the humid tropics: areas with high concentrations of biodiversity and carbon stocks. The Living Planet Report recently revealed the extent of the global decline in wildlife, with tropical forest populations showing a 41% decline between 1970 and 2009.[6] Unsustainable practices in palm oil production in the tropics are therefore of critical concern.

The risks associated with palm oil production are well-documented and include deforestation, peatland destruction and habitat degradation, as well as the associated climate change impacts.[7,8]

Palm oil companies have also been linked to the violation of land rights and national laws, and unfair treatment of smallholder farmers, among other serious social impacts.[9,10,11]

With demand for palm oil on trend to double by 2050[12] and global wildlife populations set to decline 67% by 2020,[13] the continued impacts of land use, land management and land use change including associated infrastructure in the tropics are urgent priorities that need to be addressed. This requires a good understanding of the areas of land under management.

KSI Sumatra High Conservation Value forest corridor in an Indonesian oil palm landscape © Calley Beamish

The importance of transparent reporting on land holdings

Palm oil companies operating across large areas of land are entrusted to manage that land responsibly and mitigate environmental and social risks. Numerous reports have highlighted a distinct lack of transparency in reporting by palm oil companies on their total land under management and the associated plans for expansion.[14,15,16]

Transparency is critical to enable informed dialogue between stakeholders, for industry accountability and for supporting companies in meeting their sustainability commitments. Accurate reporting on land under a company's management is a core component of corporate transparency. It is essential to understanding the current and future impacts of the industry, and an important first step in identifying and prioritising the mitigation of risks associated with specific companies.

For investors, precise and coherent reporting on land holdings affects fundamental analysis: 'freehold', 'leasehold', 'concessions' or other 'land rights' are included as assets or costs in companies' annual reports. Investors should be able to access information on the total areas of land managed by companies and the status of each area. This includes areas that are planted, unplanted and proposed for future development; set aside for conservation, and infrastructure, or other uses.

This detail is essential to ensure that companies are adequately mitigating the environmental and social impacts associated with different land uses and stages of land management and addressing the related risks. For example, unplanted areas proposed for expansion may be exposed to a variety of operational and reputational risks at different stages of development. In addition, external factors outside of a company's control such as regulatory changes or natural disasters can affect development and result in assets becoming stranded.[17] Overall, unclear reporting means investors have an incomplete perception of risks associated with land holding and its present and projected economic value.

SPOTT assesses 50 of the world's largest palm oil companies on their transparency, commitments and progress towards environmental and social best practice. This includes company-reported figures on the areas and categories of land under their management. In total these 50 companies represent a significant proportion of the current total land under palm oil production globally. SPOTT assessments, however, reveal a lack of transparency on land holdings data as analysed in the next section.

Analysis and discussion

Our analysis shows that information on land holdings is not clearly reported by companies. When referring to 'landbank', companies more frequently report *planted or plantation* areas, rather than their total land holdings or extent of land under their management. It can, however, be difficult for companies to report consistently. For example, figures may be calculated differently depending on stages in the permitting process.

Inconsistencies in reporting and different interpretations of definitions to report against make it difficult to accurately assess company land holdings. Reported figures may exclude currently undeveloped land, as well as land for infrastructure or set-aside for conservation. It is also often unclear whether company reporting on total land under management includes or excludes scheme smallholder areas or plasma plantations.

The lack of transparency of specific land ownership and management relationships between companies and smallholders is a potential barrier to understanding whether companies are mitigating risks, such as uncertainties over legal titles and restricted access to markets and market information (including fair prices). There is also less clarity on who exactly is responsible for day-to-day operations and the management of resources allocated to developing land.

Transparent reporting on the variety of areas under management is important to support greater accountability and to ensure adequate risk mitigation by providing context to a company's commitments and progress towards responsible land management.

Land holdings of SPOTT assessed companies

The 50 companies featured on SPOTT report combined total **land holdings for oil palm** of an estimated **8.6 million hectares (ha)**. This figure is taken to include all land managed by companies associated with palm oil production, including planted areas, unplanted areas, conservation set-aside areas, land for infrastructure and other uses.

These companies include 39 RSPO members, which together report approximately **2.5 million ha of RSPO-certified areas**. This represents 77% of the global RSPO-certified area of 3.25 million ha (as of December 2016).[18]

The 50 companies have disclosed:

- **5.5 million ha** of estate **planted areas**.
- **1.1 million ha** planted under **scheme smallholders or plasma schemes**. However, it is unclear how many companies include these areas within estate planted areas.
- **600,000 ha** set-aside for **conservation**. This represents a **median 7%** of a company's total oil palm land holdings.
- **475,000 ha** of **unplanted areas**, which are of unspecified use and may or may not be plantable.
- **52,000 ha** for **infrastructure**, such as mills and roads.

This results in nearly **900,000 ha** out of the 8.6 million ha being uncategorised in reporting and of **unclear use**. This figure increases to almost 1.4 million ha when unplanted (yet unspecified) areas are also included.

Total RSPO-certified areas comprise just over 33% of the total land for oil palm of the RSPO member companies assessed on SPOTT. However, the lack of a standard definition on whether certified area comprises the total or just planted areas makes it difficult to assess the progress of these companies towards targets for 100% certification.

Differences in reporting

The data disclosed by individual companies in their annual reports, company websites, and/or RSPO Annual Communication of Progress (ACOP) reports vary considerably (see **Figures 1** and **2**). Despite the ACOP setting common reporting requirements for RSPO members, guidance could be made more specific to state clearly which areas should be included in the following categories:

- **Total land for oil palm** is not clearly reported by 15 out of the 50 (30%) companies, with companies either reporting only total planted area or not clearly reporting the total land under the company's management.
- All of the 50 companies featured on SPOTT report a **planted area**, but 14 (28%) companies report contradictory figures. Variations may be associated with continual planting resulting in constant change, but associated dates are not always provided, creating ambiguity around the most recent figures.
- Over half (35) of the companies report **scheme smallholder or plasma areas**. However, nine out of 34 (26%) report varying figures. This may be due to different types of smallholders being included in different figures or again changes in planted areas over time.
- **Areas set-aside for conservation** are reported by 40 (80%) of the companies, but 8 out of 40 (20%) report inconsistent figures.
- **Unplanted areas** are only reported by 15 out of 50 companies (30%). It is often unclear what these areas constitute, such as conservation set-asides, infrastructure or areas proposed for future planting. Transparency around these areas is important for risk management and accountability.
- With only seven of the 50 (14%) companies reporting on **infrastructure areas**, this is the least reported category. Infrastructure can have devastating environmental impacts,[19,20] making it an important focus for increased transparency.
- In total, **28 out of 50 companies (56%) report inconsistent figures**. 26 of these are RSPO members. However, these companies are generally more transparent than non-members due to the RSPO reporting system, suggesting an opportunity for RSPO to clarify this process.

Figure 1: Numbers of palm oil companies assessed on SPOTT **reporting** or **not reporting** the following categories:

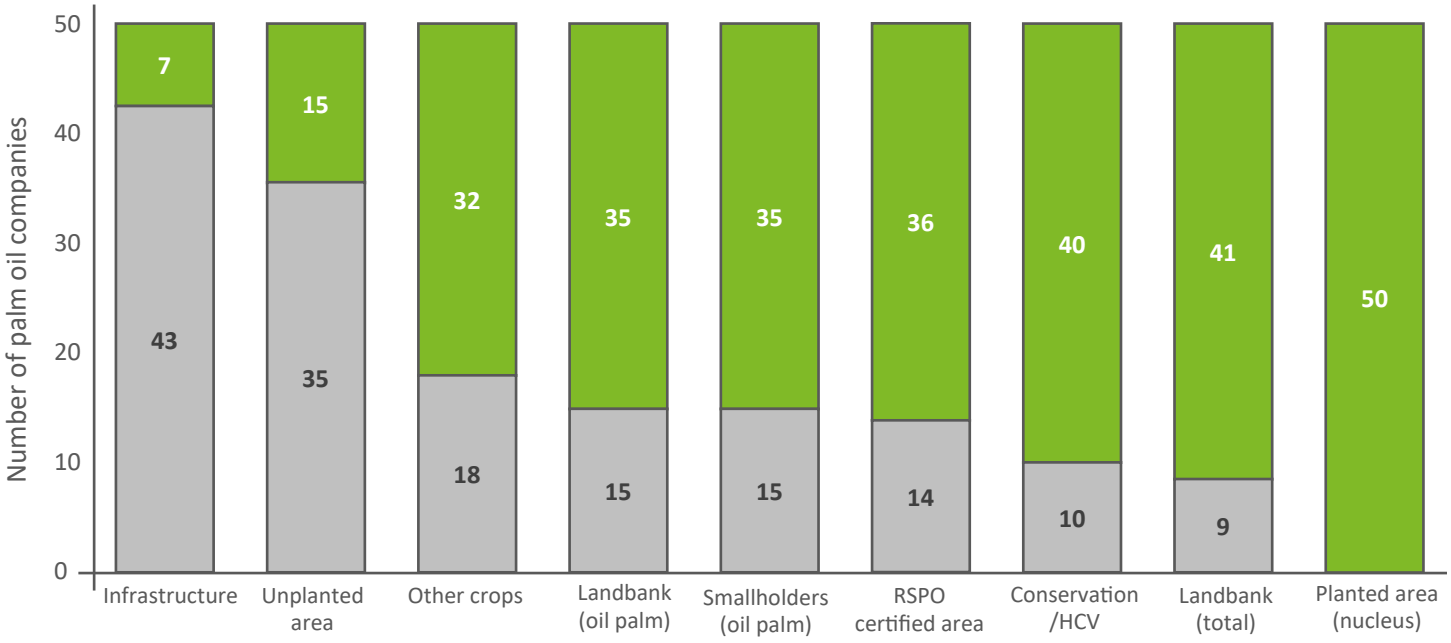
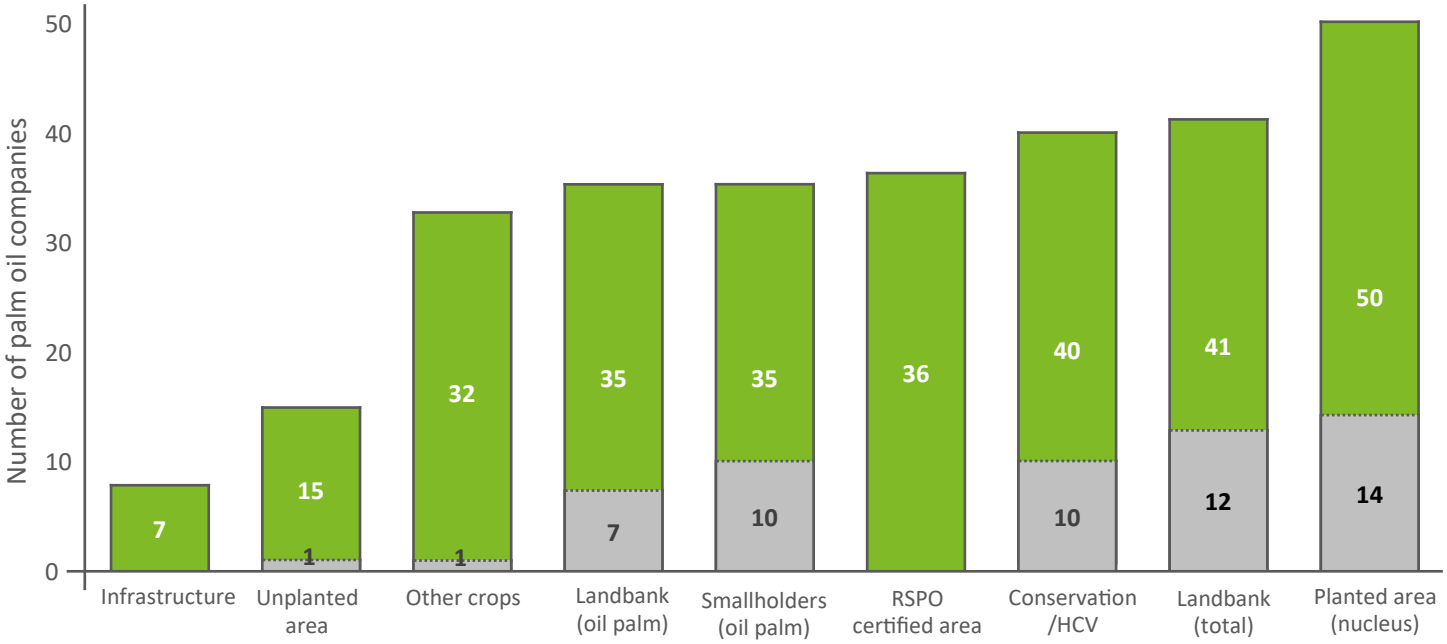


Figure 2: Numbers of companies assessed on SPOTT **reporting in total** and, of those, **reporting inconsistently**:



Conclusions

It is difficult to assess company land holdings accurately without consistent, comparable and publicly accessible figures. While companies generally report on planted areas, they are less transparent in distinguishing unplanted areas, smallholder-managed, conservation set-asides and areas for infrastructure – crucial categories of land in terms of environmental and social risk.

The role of companies

Companies should provide regular, consistent reports on areas of land under management. Companies that report high quality data on land holdings demonstrate to their shareholders the use of adequate metrics to inform and report on cost efficient, productive and environmentally and socially sound land management.

Clear reporting enables companies to be held to account and to measure and report their progress in meeting sustainability commitments. This helps to reassure investors and stakeholders of compliance with best practice and supports increased trust in the sector.

The role of standard-setters

This report highlights the need to improve the definitions for reporting on palm oil company land holdings. There is an opportunity to clarify definitions within the RSPO ACOP report, the submission of which is a mandatory requirement of ordinary and affiliate RSPO membership.

Following a ZSL-led resolution, the RSPO is working to improve the ACOP reporting process,[21] including the specification of clear guidance and definitions.

While our analysis suggests that RSPO members are disclosing more landbank data than non-members, a lack of clear definitions is inhibiting the contribution of the ACOP process to support transparency and assess progress. In recognition of this, the RSPO is improving the ACOP process in time for the 2017 report submission. It is hoped that this will improve the reporting process considerably.

The RSPO is well-positioned to establish a standard on responsible reporting for the wider industry to follow. Furthermore, reporting against agreed and clearer definitions can be promoted by initiatives with a broader reach, such as ISEAL Alliance or the Global Reporting Initiative (GRI). This can support greater uptake by companies, alignment with reporting on other commodities, and consistency between sectors.

Bloomberg and other global databases on companies can further support the use of such data for investors and other stakeholders by collating the data and making them accessible to their users.

The role of investors

Shareholders, and loans and banking facility providers are urged to require their investees and clients to systematically and coherently disclose information in relation to their land holdings. Companies should respond in support of greater transparency by comprehensively and regularly reporting land under their management.

When reported data are incomplete or unclear, engagement with investees and clients should include requests for additional information and improvements in reporting.

Reported data, as a minimum, should include:

- **Total landbank or land holdings** to identify what land the company owns or manages, not just what land has been planted.
- **Planted areas** to show what land has been planted with crops and the stage of planting (mature or immature).
- **Unplanted areas**, with clear details of what these constitute and whether these may be planted in the future. This demonstrates plans for future expansion and highlights areas that may represent the greatest environmental and social risk.
- **Areas set-aside for conservation** that will not be planted and must be conserved, such as High Conservation Value (HCV) or High Carbon Stock (HCS) areas, including peatlands, fragile or marginal land, etc.
- **Areas for infrastructure**, such as mills, roads, offices, etc.
- **Scheme smallholder/plasma areas** or clarity as to whether these are included in total planted areas.
- **Any other land uses**.
- **Dates** to allow for clear measurement of changes over time.

To support accountability, early risk management and communication of company progress against best practice commitments, data on areas and categories of land should be reported alongside spatial data to show the location of land under management. This can improve the management of risks, such as deforestation and fires.

Transparency is an important first step in driving more sustainable practices in the palm oil industry. Corporate transparency enables companies to communicate their progress towards their sustainability commitments, allowing for increased confidence and relations between companies, their investors, certifying bodies, the market place and the general public.

Clearly reporting on the types and area of land holdings presents a significant step in the right direction for all committed to a responsible and sustainable future.

Methodology

1. ZSL collated data on company landholdings for the 50 palm oil companies featured on SPOTT between October and November 2016. These data are available to view on the SPOTT website. The data drew upon publicly available sources published or reported by companies themselves, including but not limited to: annual reports, sustainability reports, presentations, press releases and Annual Communication of Progress (ACOP) reports for members of the Roundtable on Sustainable Palm Oil (RSPO).
2. Where the data found were over one year old, they were only recorded if a more recent figure could not be found. Where applicable, this is noted on the SPOTT website.
3. Where differences in reporting occurred, figures were included as 'Alternative data'. This does not imply difference in the accuracy of data compared to the 'Primary data', as it was not always possible to tell which figure was correct.
4. In specific cases, where figures were not reported, ZSL calculated data based on other individual figures, noted on the SPOTT website.
   - Where figures on oil palm landholdings were not found, ZSL estimated this by subtracting the 'other crops' figure from the 'total landbank'.
   - Where total landbank figures could not be found, ZSL estimated this by adding the 'other crops' figure to the 'oil palm landbank'.
   - If one or the other of these figures was not present, the cultivated area figure as reported in a company's ACOP report was used.
5. The notes section in each company table aims to any additional detail to clarify the data.

About SPOTT

SPOTT promotes corporate transparency and accountability to drive industry uptake and implementation of environmental and social best practice in commodity production.

SPOTT is a free online platform providing a scorecard and detailed assessments of 50 of the world's largest palm oil companies on the disclosure of their practices and their commitments and progress towards the implementation of best practice. This provides commodity producer companies with a framework against which to report, clearly setting out expectations for public disclosure of commitments and progress.

SPOTT enables investors and other stakeholders to engage with companies in support of sustainable commodity production. ZSL is currently expanding SPOTT to assess companies operating in other industries. SPOTT is an initiative of ZSL's Business and Biodiversity Programme and forms part of a wider ZSL mission target to ensure that best practice is business-as-usual in at least one million km^2 of priority production landscapes by 2026.

Please contact us if you would like to discuss the results, implications and recommendations of this report with a member of the SPOTT team by visiting the contact page of the SPOTT website.

About ZSL

Founded in 1826, the Zoological Society of London (ZSL) is an international scientific, conservation and educational charity whose mission is to promote and achieve the worldwide conservation of animals and their habitats.

Our mission is realised through our groundbreaking science, our active conservation projects in more than 50 countries and our two Zoos, ZSL London Zoo and ZSL Whipsnade Zoo.

References

[1] USDA Foreign Agriculture Service (2017). Production, Supply, and Distribution Online Database; Oil, Palm; World; Area harvested and production. [online] USDA: Washington D.C., USA. Available at: https://apps.fas.usda.gov/psdonline

[2] FAOSTAT (2016). Crops; World; Oil, palm fruit; Area harvested; 2014. [online] FAO: Rome, Italy. Available at: http://www.fao.org/faostat/en/#data/QC

[3] USDA Foreign Agriculture Service (2017). Production, Supply, and Distribution Online Database; Oil, Palm; World; area harvested and production. [online] USDA: Washington D.C., USA. Available at: https://apps.fas.usda.gov/psdonline

[4] Rainforest Rescue (2016). *Palm oil – deforestation for everyday products.* [online] Rainforest Rescue: Hamburg, Germany. Available at: https://www.rainforest-rescue.org/topics/palm-oil

[5] ICCT (2016). *Availability, use, and removal of oil palm biomass in Indonesia* [pdf] ICCT: Washington D.C., USA. Available at: http://www.theicct.org/sites/default/files/publications/Teh_palm%20residues_final.pdf

[6] ZSL (2016) *WWF Living Planet Report 2016. Technical Supplement: Living Planet Index*. Zoological Society of London (ZSL): London, UK. http://wwf.panda.org/wwf_news/?282370/Living-Planet-Report-2016

[7] Koh, L.P. & Wilcove, D.S. (2008). Is oil palm agriculture really destroying tropical biodiversity? *Conservation Letters*, [online] volume 1(2), p. 60-64. Available at: http://onlinelibrary.wiley.com/doi/10.1111/j.1755-263X.2008.00011.x/full

[8] Vijay, V. *et al.* (2016). The Impacts of Oil Palm on Recent Deforestation and Biodiversity Loss. *PLoS ONE*, [online] volume 11(7). Available at: http://journals.plos.org/plosone/article?id=10.1371/journal.pone.0159668

[9] Colchester, M. & Chao, S. (2013). *Conflict or Consent? The oil palm sector at a crossroads*. [pdf] Forest Peoples Programme: Moreton-in-Marsh, UK; Sawit Watch: Bogor, Indonesia; TUK: Jakarta, Indonesia. Available at: http://www.forestpeoples.org/topics/palm-oil-rspo/publication/2013/conflict-or-consent-oil-palm-sector-crossroads

[10] Colchester, M. (2011). *Palm Oil and Indigenous Peoples in South East Asia*. [pdf] International Land Coalition (ILC): Rome, Italy; Forest Peoples Programme: Moreton-in-Marsh, UK. Available at: http://www.forestpeoples.org/sites/fpp/files/publication/2010/08/palmoilindigenouspeoplesoutheastasiafinalmceng_0.pdf

[11] Li, T.M. (2015). *Social Impacts of Oil Palm in Indonesia: A Gendered Perspective from West Kalimantan*. [pdf] CIFOR: Bogor, Indonesia. Available at: http://www.cifor.org/library/5579/social-impacts-of-oil-palm-in-indonesia-a-gendered-perspective-from-west-kalimantan/

[12] FAO (2006). *World agriculture: towards 2030/2050*. [pdf] FAO: Rome, Italy. Available at: http://www.fao.org/fileadmin/user_upload/esag/docs/Interim_report_AT2050web.pdf

[13] WWF (2016*). Living Planet Report 2016: Summary*. [online] WWF: Gland, Switzerland. Available at: http://awsassets.panda.org/downloads/lpr_living_planet_report_2016_summary.pdf

[14] Down to Earth (2012). *How much land?* [online] Down to Earth, Colchester, UK. Available at: http://www.downtoearth-indonesia.org/story/how-much-land

[15] Greenpeace (2014). *Golden Agri Resources - A Progress Report*. [pdf] Greenpeace International: Amsterdam, Netherlands. Available at: http://www.greenpeace.org/international/en/publications/Campaign-reports/Forests-Reports/GAR-Progress-Report/

[16] Thoumi, G. (2016). *Palm Oil Frontiers: Lessons Learned From SE Asian Corporate Expansion To Africa.* [online] Available at: http://seekingalpha.com/article/4016434-palm-oil-frontiers-lessons-learned-se-asian-corporate-expansion-africa

[17] Chain Reaction Research (2017). *Indonesian Palm Oil's Stranded Assets – 10 Million Football Fields on Undevelopable Land.* [pdf] Chain Reaction Research: Washington, D.C., USA. Available at: https://chainreactionresearch.files.wordpress.com/2017/02/palm-oil-stranded-land-size-equals-ten-million-football-fields-crr-170209.pdf

[18] RSPO (2017). *Impacts.* [online] RSPO: Kuala Lumpur, Malaysia. Available at: https://www.rspo.org/about/impacts

[19] Li, M., De Pinto, A., Ulimwengu, J.M. *et al.* (2015). Impacts of Road Expansion on Deforestation and Biological Carbon Loss in the Democratic Republic of Congo. *Environmental and Resource Economics* [online] volume 60(433). Available at: https://link.springer.com/article/10.1007/s10640-014-9775-y

[20] Laurance, W. (2012). *As Roads Spread in Rainforests, The Environmental Toll Grows* [online]. Available at: http://e360.yale.edu/features/as_roads_spread_in_tropical_rain_forests_environmental_toll_grows

[21] RSPO (2015). *Resolution to Improve the ACOP Reporting Process.* [pdf] RSPO: Kuala Lumpur, Malaysia. Available at: http://www.rspo.org/file/ga12/GA12-Resolution6g.pdf

ZSL | LET'S WORK FOR WILDLIFE

Animals and their habitats face increasing threats across the world. Donate to ZSL to help build a future where animals are valued and their conservation assured.
ZSL is a registered charity in England and Wales no. 208728.