Peatland News

Title:	**Felda Global Ventures Stops Peat Clearance, Faces Potential Deforestation Liability Equal Q2 2017 Net Income**
Date:	01-Sep-2017
Category:	Plantations on peat
Source/Author:	Chain Reaction Research
Description:	Following a Board meeting on August 24, Felda Global Venture's (FGV) executives updated its Sustainability Policy. The new policy states FGV pledged to halt peat forest clearance by its subsidiaries in West Kalimantan, Indonesia, operating under the names PT Citra Niaga Perkasa (PT CNP) and PT Temila Agro Abadi (PT TAA). It also pledges to rehabilitate peat land developed after August 25, 2016, when FGV first adopted its Sustainability Policy.

Following a Board meeting on August 24, Felda Global Venture's (FGV) executives updated its Sustainability Policy. The new policy states FGV pledged to halt peat forest clearance by its subsidiaries in West Kalimantan, Indonesia, operating under the names PT Citra Niaga Perkasa (PT CNP) and PT Temila Agro Abadi (PT TAA). It also pledges to rehabilitate peat land developed after August 25, 2016, when FGV first adopted its Sustainability Policy.

With the new policy FGV pledges:

- "No deforestation, no conversion of High Conservation Value (HCV) areas, no new planting on peat land immaterial of size and depth and no new development of areas classified as having High Carbon Stock, irrespective of when the lands are acquired or owned by FGV Group;
- Will adopt best management practices for existing peat land estates and endeavor to rehabilitate peat lands that have been planted after 25th August 2016; and
- Will stop immediately all new development on peat lands irrespective of when the land was acquired or any previous RSPO New Planting Procedure approval."

The decision by the FGV to permanently to discontinue development in the remaining land bank at PT CNP and PT TAA is a welcome step. It means that 1,400 ha of peat forest may now not be deforested and drained for oil palm plantation development. An additional 1,000 ha might be rehabilitated. FGV has publicly indicated that it sought stakeholder feedback to its sustainability policy in response to Chain Reaction Research's updates in April and May 2017.

FGV Board's decision comes 16 months after Chain Reaction Research first publicly described FGVs compliance-related material financial risks.

During this period, FGV engaged stakeholders regarding its subsidiaries actions while, at the same time, its subsidiaries continued to clear peat forest. In August 2016, FGV had launched its own NDPE policy, but its subsidiary PT TAA continued to clear peat forest – in non-compliance with FGVs policy and despite engagements by Aidenvironment and FGV buyers Wilmar and Musim Mas. When Aidenvironment raised this with FGV in April 2017, FGV said that neither its NDPE policy nor the Government of Indonesia's December 2016 ban on peat clearance applied. The company's legal adviser justified the continued peat clearance saying that PT TAA had obtained permits to clear the peat forest some years back. The wording of the updated sustainability policy now signifies a marked change from this position.

In the company's letter to stakeholders, FGV clarifies that it had issued a stop-work order to PT TAAs management on April 25, 2017. FGV states that it recommenced the land clearing – again due to community pressure – for a two-week period until it stopped again on May 19. Aidenvironment confirms that since then no significant land clearing has occurred. FGV states it will discuss their case with the Government of Indonesia's Peat Restoration Unit (BRG) for the peat land already cleared and it intends to use RSPOs Best Management Practices.

In 2012, FGV had acquired 95 percent of the 14,385 hectare (ha) PT CNP concession for USD 5.5 million. Then in 2013, FGV purchased 95 percent of the 8,193 ha concession for USD 7.6 million. According to Aidenvironment, these two concessions combined have cleared 16,498 ha of peat land since 2010.

Chain Reaction Research's April 21, 2016 coverage described FGVs financial risks from deforestation, non-compliance with its buyers' No Deforestation, No Peat, No Exploitation (NDPE) policies, and possible stranded assets. The next month, in May 2016, FGV reported its deforestation-linked non-compliance with the Roundtable on Sustainable Palm Oil's (RSPO) Remediation and Compensation Panel.

RSPOs relevant compensation and remediation policy is not new. March 6, 2014, RSPO Board of Governors implemented its Remediation and Compensation Procedures Related to Land Clearance Without Prior HCV Assessment. On p. 10, the procedures state RSPO may expel companies who violate its criteria regarding land clearing that occurs after May 9, 2014. According to RSPO, possible compensation to mitigate this risk of being expelled include USD 2,500 to USD 3,000 per ha payable the first year the compensation agreement is accepted.

Aidenvironment analysis suggests that FGV may become the first supplier to the NDPE market that will be held accountable for knowingly proceeding with non-compliant land clearing. If stakeholders demand FGV to compensate according to RSPOs rules, the following may occur.

- FGV may be required to implement a responsible forest management plan for the remaining peat forest in and outside of its two concessions.
- According to RSPOs guidance for Remediation and Compensation, FGV may need to pay USD 5.2 million to USD 6.1 million for compensation for the HCV area cleared by PT CNP (260 ha) and the peat forest cleared by PT TAA (1,800) since April 2016. It is important to note that RSPO has not applied this compensation requirement. This would be the first time this compensation arrangement would be applied.

Finally, this compensation arrangement – while uncertain – may be material to investors and analysts, according to Climate Advisers. FGVs possible liability equals FGVs Q2 2017 net income available to common shareholders reported at USD 6 million.

[Back] [Print Friendly]