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NEWS RELEASE

BUSINESS CASE FOR A LANDSCAPE APPROACH TO SUSTAINABLE PALM OIL PRODUCTION

Jakarta, 20 July 2018 – One of our partners IDH - Sustainable Trade Initiative (“IDH”) have commissioned case studies that examine the business rationale for companies across various commodities and regions around the world to engage in landscape initiative. One of the studies reviews the Bumitama Biodiversity and Community Project (“BBCP”) co-funded with IDH under the ISLA programme, analysing the impact of landscape approach on sustainable palm oil production.

The report offers useful data and information of the initial 1.5 years of our project and affirms on the viability of its objectives in accordance with the principles of the Production-Protection-Inclusion (“PPI”) Compact piloted by IDH, which brings together biodiversity conservation, management of forested areas, improvement of livelihoods of the local communities and engagement with government under one landscape programme. We attach the full report below.



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BUMITAMA AGRI LTD:

The business case for a landscape approach to sustainable palm oil production in Indonesia

Landscape: Ketapang, West Kalimantan, Indonesia
Company Sector: Oil palm grower
Net Revenue: IDR 8.131 trillion

“Palm oil has come under tremendous backlash. Particularly around 2014/2015 when the drought hit and there was the fires and haze problem. We have to change the perception of the market. We have seen changes in global requests and demands and we have to change the way that we do business.”

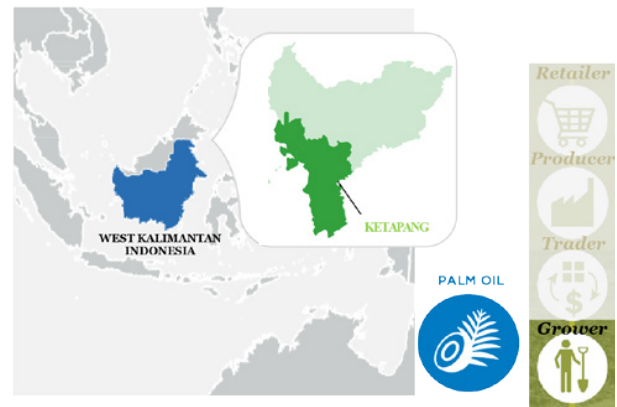
Lim Sian Choo,
Group Head of Corporate Secretarial Services & CSR, Bumitama Agri

Key Business Motivations:

Maintain customer loyalty, increase sales, and attract finance

Landscape Maturity Level:

Effective implementation



Produce Sustainable palm oil production	Protect Protecting natural forests and peatland	Include Livelihoods for farmers
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Summary

After establishing its No Deforestation policy in August 2015, Indonesian oil palm grower Bumitama Agri conducted a risk analysis that resulted in its decision to participate in a landscape approach in the Ketapang district of West Kalimantan. The Bumitama Biodiversity and Community Project (BBCP), convened by IDH and implemented with Aidenvironment, sees Bumitama work with multiple tiers of government and other stakeholders, to formally conserve a wildlife corridor connecting the Sungai Putri peat swamp and the Gunung Tarak protected forest. This takes place alongside working with local communities to establish land use plans for eight villages in and surrounding the corridor. This case study documents the business case for Bumitama to take a landscape approach in this context and why it was necessary to achieve the company’s goals.



Glossary

Crude Palm Oil (CPO) – edible oil which is extracted from the pulp of oil palm fruitlets.

Fire-free village – fire management project founded on close engagement with local communities¹.

Fresh Fruit Bunch (FFB) – a collection of fruitlets which grow on the oil palm tree which are harvested and processed to produce palm oil and palm kernel oil.

High Conservation Value (HCV) forest – forests with biological, ecological, social or cultural values which are outstandingly significant or critically important at the national, regional or global level².

High Carbon Stock (HCS) forest – viable natural forest areas, areas of HCV and community lands. The HCS approach separates HCS areas (viable natural forest) from non-HCS areas (degraded land)³.

KEE – Kawasan Ekosistem Esensial or Essential Ecosystem Zone. A legal framework that deals with areas within government-issued plantation and other business licenses, outside of conservation areas, managed and protected based on conservation principles to maintain the ecosystems functions, protect biodiversity and to benefit the surrounding communities⁴.

Palm kernel (PK) – the edible seed of the oil palm fruit.

Plasma Scheme – government mandated programs whereby companies lease out plots of land within their concessions to smallholders, oversee management practices and offer competitive prices for crops.

Non-Timber Forest Products (NTFP) – any product or service other than timber that is produced in forests. Including fruits and nuts, vegetables, fish and game, medicinal plants, resins, essences and a range of barks and fibres such as bamboo, rattans, and other palms and grasses⁵.

Set-asides – land taken out of production for conservation purposes.

Smallholder – farmers with land parcels which have <50 ha of planted oil palm⁶.

Slash and burn – method of land clearance commonly used by small farmers in which forests or existing crops are cut down and the land burned off before replanting agricultural crops.

1 https://www.aprilasia.com/images/pdf_files/Fire-Free-Village-Program-Review-2016.pdf

2 <https://www.hcvnetwork.org/about-hcvf>

3 <https://www.proforest.net/en/news/hcv-and-hcs-2013-what2019s-the-difference>

4 http://files.shareholder.com/downloads/AMDA-WWON6/0x0x-970671/3cdb5bfe-dadb-41fc-a476-22f2ae1c511a/Bumitama_supporting_the_KEE_initiative.pdf

5 <https://www.cifor.org/publications/corporate/factSheet/NTFP.htm>

6 <https://rspo.org/smallholders/rspo-smallholders-definition>

Background

Bumitama Agri Ltd

PT Bumitama Gunajaya Agro (BGA) founded in 2005 under Bumitama Group (Bumitama Agri Ltd.), is an investment holding company, whose primary business is the production of palm oil through the management of oil palm plantations and mills in Indonesia. In 2017 it had an annual net revenue of IDR 8,131 billion⁷. The company is headquartered in Jakarta and has a total planted area of 182,675 ha, in three provinces in Kalimantan and Sumatra, Indonesia. In 2012 the company launched its initial public offering on the Singapore Stock Exchange, and two families (the Lim family and the Lee family) are substantial shareholders.

Bumitama receives Fresh Fruit Bunches (FFB) from its estates and processes them into crude palm oil (CPO) and palm kernel (PK) before selling these products on to refineries who further process the products and trade them in both the local market (usually in the form of cooking oil) and around the world to consumer goods and biofuels companies. The company increased its number of CPO mills from six in 2012 to 14 in 2017. Its palm oil production grew from 256,883 metric tons in 2010 to 818,835 in 2017. Shareholders' earnings have similarly increased from IDR 787.9 billion in 2012 to IDR 1,193.3 billion in 2017. The company made investments totalling IDR 1 trillion during 2016, this included four plantation company acquisitions, including PT Gemilang Makmur Subur (PT GMS) and PT Damai Agro Sejahtera (PT DAS). The Group's investing activities in 2017, totalling IDR 1,030 billion, were mainly due to increases in plasma receivables and investments in bearer plants.



Bumitama has historically been subject to a number of high profile campaigns by environmental groups for its links to forest destruction and fires in its concessions in Indonesia. In an effort to address its sustainability performance in 2013 Bumitama Group extended its membership of the Roundtable for Sustainable Palm Oil (RSPO) to cover the company Bumitama Agri Ltd at the Group level. Further to this, in August 2015 the company launched its ambitious “No Deforestation, No Peat, No Exploitation” policy⁹, following in the footsteps of many consumer goods companies and a number of palm oil traders. However, Bumitama was one of the first predominantly ‘grower’ companies to launch such a policy. In an effort to demonstrate its commitment to its policy, Bumitama recently engaged in a multi-stakeholder, landscape approach on the ground in its concessions in West Kalimantan, working on land use planning, sustainable production and forest conservation with communities, government and other private sector actors.

Growing palm oil industry in Indonesia

Palm oil is one of the world's most consumed oils and is used in a wide variety of food, cosmetic and hygiene products. Indonesia is the world's largest producer of palm oil, producing 36 million metric tons in 2016, over half of total global production¹⁰. Around 85% of Indonesia's palm oil is exported, however, Indonesia's expanding population and growing middle class, as well as the government's support for biodiesel, means that domestic demand in Indonesia is growing significantly. Ten percent of the country's total land area (approximately 21 million ha) has been leased for oil palm concessions in the last 25 years (including both planted and unplanted - often forested - areas) and the country is estimated to have approximately 900 palm oil mills¹¹.

Palm oil cultivation in Indonesia has expanded significantly at the expense of the production of other agricultural products such as cocoa as smallholders in particular are attracted by the lucrative prospects, eager to improve typically low incomes and high poverty rates in the region. Production in the country is led by large private plantations and large state owned plantations (approximately 60% of production), while smallholder farmers account for 40% of oil produced. The Indonesian government mandates that a minimum of 20% of a concession's planted area is allocated to smallholder out grower schemes - commonly known as ‘plasma’

7 http://files.shareholder.com/downloads/AM-DA-WWON6/5738511134x0x975986/A4CD676A-D1D1-4153-B175-75628841CA45/Bumitama_Agri_Ltd_Annual_Report_2017.pdf

8 <https://markets.ft.com/data/equities/tearsheet/profile?s=P8Z:SES>

9 http://www.bumitama-agri.com/asset/upload/storage/report/Bumitama_Sustainability_Policy.pdf

10 <https://www.indonesia-investments.com/business/commodities/palm-oil/item166>

11 http://www.aidenvironment.org/wp-content/uploads/2017/02/201702_palm-oil-stranded-land-size-equals-ten-million-football-fields-crr-170209.pdf

schemes. The national government reportedly plans to increase the country's palm oil production to 42 million tons by 2020¹².

Palm oil as a driver of deforestation

Palm oil is extracted from the fruit of the oil palm tree, *Elaeis guineensis*, which grows most productively in tropical regions (predominantly Indonesia and Malaysia). In order to plant the monoculture crop at scale, large swaths of tropical forests and peatlands (carbon-rich swamps) have been cleared to make way for oil palm plantations. It is estimated that since 1990, one quarter of Indonesia's forest (31 million ha) has been lost and that plantation industries (including oil palm, timber, pulp and paper and food crops) have been the main driver¹³. This has led to wide scale criticism from environmental groups, who condemn the climate change impacts of the carbon released into the atmosphere, as well as the impacts around shrinking habitats for a multitude of endangered species. These impacts are often compounded by the outbreak of fires on highly flammable peat soils, caused by slash-and-burn land clearance practices typically practiced by small farmers and local communities planting oil palm, rubber and food crops but which can easily spread into commercial plantations.

Numerous high profile campaigns against producers and buyers of palm oil from civil society groups such as Greenpeace¹⁴ and Friends of the Earth¹⁵ has led to a proliferation of corporate 'No Deforestation' commitments from both consumer goods companies as well as palm oil traders themselves. These commitments demand that the palm oil products they buy from Indonesian growers are not associated with environmental destruction.

Challenges to production in the region

In response to this growing demand from buyers for 'No Deforestation' palm products, Indonesian palm oil growers face the prospect of 'stranded assets' on their balance sheets as forested concessions cannot viably be developed while meeting buyer demands¹⁶. At the same time, efforts by growers to set aside areas of oil palm concessions have increasingly been at odds with the government's development-driven policies in Indonesia which demand that concession areas leased for agriculture are fully developed. There is increasingly a need for government, civil society and private sector collaboration around land use planning solutions that can provide a win-win situation for all.

It is also common that local communities and small-holder farmers in Indonesia do not have formal land ownership or use rights. Freehold land titles (Sertifikat Hak Milik, SHM) are issued by the National Land Agency (BPN), however, many smallholder farmers hold a Surat Keterangan Tanah (SKT), which is a letter of ownership issued by the village head. Conflictual governance mechanisms at the local, provincial and national level in the country often leads to overlapping land claims which can result in conflict between communities and companies. The large scale production of oil palm by smallholder farmers, often with uncertain land ownership, leads to complex and often opaque supply chains, as hundreds of smallholders sell crops to dealers who then sell the FFB on to palm oil mills. Verifying the origin of the FFB that ends up in palm oil supply chain as being deforestation free can therefore be very difficult.

Proving 'No-Deforestation' on the ground: Taking a landscape approach in West Kalimantan



The Sustainable Trade Initiative (IDH) works across eight different sectors in Indonesia including palm oil, tropical timber, pulp and paper, coffee, cocoa, tin, spices and aquaculture. The co-dependencies of a number of these industries was becoming increasingly evident in recent years and IDH has integrated the pulp and paper, palm oil and tropical timber programs into one landscape program that operates in four provinces in Indonesia. The landscape approach leverages the zero deforestation commitments of large palm oil buyers to co-finance PPI investment plans - Production (via sustainable agriculture), Protection (of natural resources), Inclusion (enhancement of farmer livelihoods) - in which private sector companies, governments, civil society organizations, local producers and communities work together. It aims to achieve forest and peatland protection and restoration through the establishment of multi-stakeholder governance of shared targets and land-use plans. This is combined with driving innovations that provide business and policy incentives to land users to protect and restore forest and maintain connectivity between forests.

12 <http://www.thejakartapost.com/news/2017/09/08/indonesia-to-increase-palm-oil-production-to-42-million-tons-by-2020.html>

13 <https://news.mongabay.com/2006/10/forest-fires-result-from-government-failure-in-indonesia/>

14 http://www.greenpeace.org/international/Global/international/publications/forests/2015/Under-Fire-Eng.pdf#_blank

15 http://www.foeeurope.org/sites/default/files/corporate_accountability/2013/by_foee_wimmar_report_the-field/

16 <http://www.aidenvironment.org/news/integrating-oil-palm-into-the-land->

IDH has been working with the provincial level government in West Kalimantan on the establishment of a Green Growth Plan for the province. In the province, IDH aims to protect 190,000 ha of high-conservation value/high carbon stock forest, rehabilitate 10,000 ha of forest and peatland and ensure sustainable production on 45,000 ha. West Kalimantan consists of diverse ecosystems ranging from peat lands to coastal mangroves to forests. It is home to critically endangered Bornean orang-utans and the Ketapang district is of particular significance as the Sungai Putri landscape at its centre contains both the Gunung Tarak protected forest and the Gunung Palung National Park which contain the largest populations of the species. The Sungai Putri forest block itself contains 750-1,750 orangutans¹⁷.

The Sungai Putri landscape is impacted by the operations of three oil palm companies: Bumitama, Austindo Nusantara Jaya (ANJ) and Malaysian owned Genting Plantations; timber companies also operate close by. Bumitama operates 5 of its 14 palm oil mills in Ketapang and an estimated 20 other oil palm companies operate concessions in the district. Bumitama's concessions - PT GMS (acquired in September 2016) and PT DAS (acquired in December 2016) - separate the Gunung Tarak protected forest from the Sungai Putri peat swamp forest. For species to be able to move between the two forest areas successfully and maintain breeding opportunities, the connection between the two areas must be ensured.

In October 2016, at a time when Bumitama's stakeholders across the world were keen to assess the seriousness with which Bumitama would take its new No Deforestation commitment, Bumitama joined forces with IDH and Aidenvironment to collaborate on the Bumitama Biodiversity and Community Project (BBCP) in Ketapang. The BBCP project focuses primarily on establishing the wildlife migration corridor in and around Bumitama's concession PT GMS. It has now been expanded to other areas of High Conservation Value (HCV), peat and High Carbon Stock (HCS) forest, through the recently acquired PT DAS. This also helps to create connectivity between the forests of Gunung Tarak and Sungai Putri. The initiative has two main goals:

1. Rehabilitation and management of a wildlife and green corridor to provide connectivity between the two forest areas for orangutans and other species.
2. Social and economic development, which will be regulated in village level land use plans for eight villages in and surrounding the corridor.

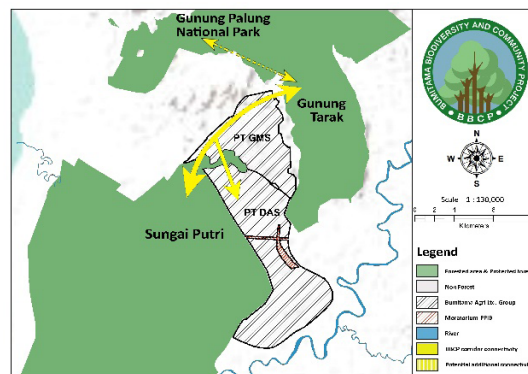


Figure 1: BBCP Project area in Ketapang¹⁸

The BBCP project takes place within IDH's PPI landscape approach: based on participatory land-use planning, whereby land for production, livelihoods, and forest protection is clearly identified, and their related uses agreed upon by the landscape stakeholders and recognized by local and national governments. The project aims to establish eight smaller scale production-protection agreements (support/investment in production activities in return for forest protection) where village level land use plans will link sustainable economic development with conservation of a wildlife corridor.

Activities to date

Since the project was established in late 2016, supported by Aidenvironment and in consultation with the district government, participatory land use maps for the eight villages have been established. Together these form the plan for conservation of the unique biodiversity of the wildlife migration corridor in PT GMS. During 2016, Aidenvironment brought it to Bumitama's attention that a neighboring company had started clearing plantation areas on the Sungai Putri peat dome, just beside the planned corridor. Bumitama approached the owners of the company to encourage them to join the conservation project. When the company expressed their disinterest, Bumitama made an offer to acquire the company, PT DAS, expanding the potential conservation corridor by 6,000 ha.

Since the acquisition, International Animal Rescue Indonesia has conducted a survey of orangutans in PT DAS & PT GMS. The company has also freed part of the land in PT GMS to create a tree nursery for rehabilitating part of the corridor. The nursery currently holds 5,000 seeds and seedlings, with plans to expand to 50,000 in the upcoming months. A nine-member team manage these. Land-use plans designating different zones for different purposes have been designed. These zones include

¹⁷ <https://news.mongabay.com/2016/10/palm-oil-company-poised-to-destroy-critical-orangutan-habitat-in-breach-of-indonesias-moratorium/>

¹⁸ <http://www.bumitama-agri.com/asset/upload/storage/report/Bumitama%20-%20Sustainability%20Report%202016.pdf>

conservation areas to be replanted with local fauna and areas for community use both for cultivating Non Timber Forest Products (NTFP) and for controlled logging. A community farm has also been developed for training farmers on how they can grow fruit and vegetables and learn techniques that they can apply on their own farms.

Bumitama has also built small jungle tracks inside PT GMS that run through the wildlife migration corridor connecting the Sungai Putri peat forest and the protected forest of Gunung Tarak. The tracks will be used by the patrolling team to monitor the area for potential fires or

any illegal logging and hunting, conduct routine vegetation and wildlife inventory surveys and also for training and future research and eco-tourism activities.

Bumitama, faced with trying to practically implement its No Deforestation commitment, acknowledged that conservation would have limited value if its scope was limited to the land under its direct control. The importance of understanding its position within the landscape in which it operates and the need to engage with other companies in the region as well as the government is crucial to the company implementing its policy successfully.



Convening and Governance

Mobilizing stakeholders

In 2015, IDH prioritised West Kalimantan as a key area for its landscape program due to it being an area subject to a lot of forest clearance, but also due to it being an area with significant peatland and intact forest land (often within company concessions) with the potential for conservation and restoration of forest connectivity. Later that year, civil society organization Aidenvironment approached IDH with the suggestion that they work together with Bumitama, the most influential company operating in the landscape containing the Gunung Tarak protected forest. The project began to take shape more clearly after the results of an HCV study conducted by Aksenta concluded that the unplanted area in PT GMS could serve as a wildlife migration corridor between the two major forested areas, with the potential to extend to the neighboring national park. A project proposal was drafted and work began to engage the government on ensuring the legal status of the area.



With a total budget of EUR 1.1 million for the first phase, the project is jointly funded by IDH and Bumitama, with the overall aim to prove the concept that investments in community and smallholder economic development, combined with land use planning and forest restoration, lead to sustainable results for people, planet, and profit in the landscape. Since the establishment of the project, the three organisations have sought to engage other influential private sector players in the landscape, including PT DAS, later acquired by Bumitama. Bumitama's competitor, Austindo Nusantara Jaya (ANJ) is supportive of the initiative and joins local dialogues. ANJ have their own program in the area where they work with The Nature Conservancy on their PT KAL concession to conserve on-plantation HCV areas. There is the potential for these to be integrated with the corridor being established by Bumitama further down the line.

A Chinese owned logging company, PT Mohairson, occupies a concession that overlaps with the Sungai Putri peat swamp/forest block and has also been engaged. However, at present the company still plans to proceed with logging the forest and draining the peat soils that they own. After a number of NGOs, including IDH, brought the case to the attention of the Ministry of Environment and Forestry, the company has been ordered to stop working until they have further investigated whether its operations are legal¹⁹. Finding a solution to this case will be crucial for the success of the initiative. The organizations have also engaged a number of NGOs with interests in the area, including Flora and Fauna International and International Animal Rescue, to conduct wildlife and high conservation value surveys.

Aligning with plans at the national and provincial level

At the national level, IDH has been working with the Ministry of Environment and Forestry on the 2016/17 revision of an important legal framework - Essential Ecosystem Zones or Kawasan Ekosistem Esensial (KEE). IDH and others saw the opportunity for the revision of the framework to address the problem of 'responsible' companies setting aside concession areas for conservation in line with their no deforestation commitments, only for the areas to then be reassigned by the provincial government to companies without commitments.

The KEE framework ensures that forest areas that are critical for either protected species, peatland or ecosystem functions at the landscape level can be protected, under the management of a multi-stakeholder group assigned by Governor²⁰. In theory, High Conservation Value (HCV) and High Carbon Stock (HCS) forest and peatland or other important ecosystems within a province that are not registered as being inside a national park or nature reserve, can be protected under a 'KEE'. This is dependent on the forest area being an important connector to a larger forest and on the area being key to the survival of a population of one or more protected species. For each province, the provincial government, seeking permission from the national government, will define which key areas these are. The areas are then managed and protected by a multi-stakeholder KEE Collaborative Management Forum in order to maintain the functions of the ecosystems, protect biodiversity, and benefit the surrounding communities.

¹⁹ <https://news.mongabay.com/2016/10/palm-oil-company-poised-to-destroy-critical-orangutan-habitat-in-breach-of-indonesias-moratorium/>

²⁰ <http://www.tft-earth.org/wp-content/uploads/2018/01/Protecting-forests-in-Indonesia.pdf>

Bumitama's work on the Sungai Putri landscape preceded the establishment of any KEE area in the province. However, seeking to provide safeguards for their set-aside areas Bumitama proposed the area for consideration to the Governor. Following this, the local forestry department conducted physical ground checking of presence of the conservation areas and management activities. The forestry department confirmed the areas and together with Bumitama signed the 'Mapping protocol' in November 2017 - an agreement outlining how the area will be mapped in order to establish which areas would fall under the KEE. Bumitama then facilitated an on-site survey for the representatives of the Ministry of Forestry in the BBCP project area. The Governor of West Kalimantan has since confirmed the KEE area, totalling 12,918 ha, called "Orangutan Corridor Landscape Sungai Putri - Gunung Tarak - Gunung Palung". Bumitama, the provincial government and NGOs are now cooperating on plans for how the area will be managed. It is hoped that in the future ANJ's conservation project in PT KAL could also be formally connected to the set aside area under the KEE.

Engaging local government

Engaging the district level government in Ketapang has been crucial to ensuring the success of the landscape work. In order to ensure the integrity of the village-level land use plans it is crucial that these are integrated with government spatial plans, and the ongoing management of these areas will depend on the local government's continued cooperation. Aidenvironment sought the cooperation of the district government and engaged them prior to any work on the ground, helping to ensure the local government's buy in to the methodology for the project from the start. Bumitama and IDH also have positive relationships with the government in this area, which has made engagement constructive. Bumitama is now hoping that later in 2018, the local government in Ketapang will also endorse the designation of the BBCP area for conservation, by issuing a local regulation in regards to this.

The Business Case: Mitigating risk and capitalizing on sustainability opportunities in the face of changing demands

Faced with growing demands from customers for deforestation free palm oil, and with a new sustainability commitment of its own, in 2016 Bumitama decided to invest in the BBCP. The company conducted risk modelling to weigh up the commercial benefits of such a project and put forward the justification internally, finally agreed to at the highest level in the organization. Some of these risks and opportunities are explained here.

"We weighed it up, we put it all into a table, if we don't do this project, what is the risk involved? We saw that it would be positive for us."

Mitigating reputational risk to maintain customer loyalty

Prior to establishing its own No Deforestation policy in August 2015, Bumitama was the subject of a number of high profile campaigns by international NGOs, accusing them of, amongst other things, forest clearance, fires and destruction of orangutan habitat²¹. These campaigns regularly named Bumitama's buyers, global palm oil traders, Wilmar International and Golden Agri Resources (GAR) and criticised them by association. Bumitama sells 75.4% of its palm oil products to Wilmar and GAR²². Both companies have published 'No Deforestation, No Peat, No Exploitation' policies. After a number of years of policy socialisation and supplier support, Wilmar and GAR are actively suspending their non-compliant third party suppliers²³. It has been estimated that were Wilmar International to stop purchasing Bumitama's palm oil, the company's revenue would decline an estimated 43% in one year²⁴. In order to maintain the loyalty of their key customers and meet their new sourcing standards, Bumitama wanted to prove that their own vision aligns and that they are serious about implementation of their policy on the ground.

21 <https://www.greenpeace.org/archive-international/en/news/Blogs/making-waves/this-is-what-dirty-palm-oil-looks-like/blog/47492/>

22 <https://chainreactionresearch.com/reports/bumitama-agri-ltd/>

23 http://www.aidenvironment.org/wp-content/uploads/2016/08/NEWSLETTER-AIDENVIRONMENT-ASIA_-IMPACTS-OF-NO-DEFORESTATION-POLICIES_EN_DEF.pdf

24 <https://chainreactionresearch.com/reports/bumitama-agri-ltd/>

“A lot of our customers adopted a policy earlier than us. After a trial period we agreed to put our own policy in place; we really have to live up to that policy. We must go hand in hand with our customers, via the landscape work but also by having a sustainable policy that is not lacking behind anyone else – it is very important.”

In order to be able to implement their No Deforestation policy in practice, Bumitama must be able to influence actors beyond their own company boundaries who may cause associated risks for the company. Plasma scheme smallholders manage the majority of the planted areas in PT GMS and DAS and many small farmers and communities surround Bumitama’s concessions. If, for example smallholders adjacent to Bumitama’s concessions use slash and burn techniques to clear their land, fires could easily spread into the company concessions, which would pose both reputational and legal risks. The company’s initial engagement with communities as part of the BBCP project has therefore involved introductory meetings on fire prevention and awareness raising in regards to the company’s fire-free village program. Only by engaging at a landscape level, via village level land use planning activities with communities outside of Bumitama’s concessions, is the company able to be confident that it is mitigating its most material reputational risks. Increasing smallholder productivity more generally is a key part of the project. The company intends that the improved livelihoods that will result will drive a decrease in deforestation.

Attracting new buyers due to market position as verified sourcing region for sustainable palm oil

International palm oil buyers source palm oil at the refinery level. In Indonesia, a few export-ready refineries process and sell palm oil products originating from hundreds of mills and thousands of plantations in any given province. International buyers are increasingly taking a ‘jurisdictional’ approach to sustainable palm oil sourcing whereby they look preferentially to sourcing from specific refineries based in jurisdictions where governments and the private sector are showing ambition and action on deforestation²⁵. For Bumitama, if all the influential private sector actors in their vicinity are not engaging in sustainable production practices, the jurisdiction will not be looked upon favorably by buyers. Bumitama stands to

risk being associated with others’ non-compliance and suffering market loss as a result. It is for this reason that PT Mohairson’s current insistence on logging the forest and draining the peat soils that they own in the district is particularly threatening to the success of the work.

However, the landscape approach taken as part of the BBCP provides a framework for all palm oil and timber companies with a significant stake or influence in the area to be engaged in implementing sustainable production practices.

“All the work we have done with the government through the BBCP has meant that they have taken the case of PT Mohairson very seriously. This work has allowed us to discuss the challenge in a wider group to see what action should be taken so the land is secure.”

The establishment of a KEE including the BBCP project area in 2018 should provide reassurance of a robust governance mechanism for the conservation of the set aside land (including HCS and HCV forests) in the area and enable the district to be looked on favourably by buyers for preferential purchasing.

“We have received a lot of interest from customers wanting to support our work, from both companies on the ground and from afar.”

Five of Bumitama’s fourteen palm oil mills are in Ketapang, West Kalimantan and its 2016 acquisitions of PT GMS and PT DAS added an extra 15,000 ha to its land bank in the province. The company only stands to gain commercially from this increased market interest in the jurisdiction.

Attracting conservation finance

The landscape approach has allowed Bumitama to engage in the KEE initiative with the end goal of guaranteeing recognition from all levels of government of the long-term conservation of its set aside areas. Via a traditional certification model, the HCV areas set aside by Bumitama and its peers in the area would have been considered as individual patches of forest and would have limited conservation value as individual units as

²⁵ <https://www.unilever.com/news/news-and-features/Feature-article/2015/unilever-signals-new-sourcing-approach-to-help-eliminate-deforestation.html>

small patches of forest quickly degrade. They would likely have been sold on by the government, potentially to other growers without sustainable production commitments who would clear the forest. The landscape approach allows for these areas owned by individual companies to be connected and together to amount to a far greater conservation value.

“The involvement of our peers is key to the success of the work. Most of the palm companies have HCV/HCS areas or peat areas that has been set aside and we are working to establish connectivity between these areas. This will lead to better growth and promotion of biodiversity in the region.”

Without taking a landscape approach, if Bumitama acted in compliance with its own No Deforestation commitment and the commitments of its dominant buyers it may have been faced with categorizing its set aside areas as stranded assets on its balance sheets, or losing them entirely if the government reassigned them. The combined scale of the set aside areas gives the companies a stronger case for attracting conservation finance. The governance mechanism of the KEE also provides reassurance to investors, and increases the opportunity to actually make these areas commercially viable.

Ensuring a license to operate

Local communities and smallholder farmers in Indonesia often do not have formal land ownership titles. Conflictual governance mechanisms at the local, provincial and national level in the country often leads to overlapping land claims, which can result in conflict between communities and companies. Historically, Bumitama has found itself in a number of disputes between community members claiming company land belonged to them and answering questions on the legality of the company's permits²⁶. Bumitama's work with communities on village level land use planning and alternative livelihoods takes place via a participatory process, led by Aidenvironment.

“We will be working with the villages on land use, in accordance with their vision. We are also helping them to secure government funding and to get their land recognized by the government.”

The conservation corridor has been designed to have different zones for different land use purposes. While the inner zone (replanted with trees providing food for orang-utan and other wildlife) will be designated for local fauna, the outer zones will be replanted with fruit trees and other Non-Timber Forest Products (NTFP) for communities to use – without causing deforestation. The most outer zone will be planted with few lines of quick growing timber trees, forming a visual boundary of the protected area and also providing controlled logging of wood for the community, so that they do not need to resort to deforestation. This inclusive approach to land use planning ensures that communities are given the opportunity to influence decisions and will ensure that Bumitama maintain a social license to operate in the area and reduce any future risk of conflict.

Improving 'brand palm oil'

In recent years, palm oil has come under increasing criticism from international civil society groups for its links to deforestation and, more recently, issues with labour standards²⁷. This has led to an increasing trend in European markets for retailers to seek alternative, lower risk ingredients and to promote 'palm oil free' products²⁸. Similarly, in April 2017 the European parliament voted controversially to prohibit sales of biofuels made from vegetable oils by 2020²⁹. While Europe only consumes around 12% of global palm oil production³⁰, many European companies with sustainability commitments also sell products into Asian markets and represent significant market shares there, too³¹.

26 <https://chainreactionresearch.com/reports/bumitama-agri-ltd/>

27 <https://www.amnesty.org/en/latest/news/2016/11/palm-oil-global-brands-profitting-from-child-and-forced-labour/>

28 <https://www.theguardian.com/environment/2018/apr/10/iceland-to-be-first-uk-supermarket-to-cut-palm-oil-from-own-brand-products>

29 <https://www.theguardian.com/environment/2018/feb/23/britain-and-europe-must-ban-palm-oil-in-biofuel-to-save-forests-eu-parliament-told>

30 <https://www.slideshare.net/GreenPalmOil/top-10-palm-oil-consuming-countries-2015>

31 <https://www.nestle.in/csv/communities/responsible-sourcing>

“Palm has come under tremendous backlash. Particularly around 2014/2015 when the drought hit and there was the fires and haze problem. We have to change the perception of the market. We have seen changes in global requests and demands and we have to change the way that we do business.”

On a per hectare basis, oil palm trees are six-ten times more efficient at producing oil than temperate oilseed crops such as rapeseed, soybean, or sunflower. Capitalizing on the efficiencies of the crop is a critical opportunity to prevent deforestation and meet global demand for vegetable oils. In order to improve the palm oil ‘brand’ and meet this opportunity, systematic action needs to be shown by the main palm oil producing countries. Bumitama’s engagement with the government via the BBCP has the scope to catalyse change across the country. IDH’s work to support different government entities and companies to establish a KEE in Ketapang is one of only three pilots to establish KEEs in Indonesia. However, IDH helps to share the concept across Indonesia and internationally, with the Governor of West Kalimantan presenting it at COP 23 in Bonn in November 2017.

Indonesia’s complex multi-layered governance mechanisms are not easily navigated and engaging key people at the district, provincial and state level has been facilitated by IDH as part of the multi stakeholder landscape approach.

“The district government does not usually sit with the provincial government, you have to approach them separately. We now have a letter from the provincial government saying that the area has been signed off by the governor. We are now seeking a letter from the district government - they are the ones that allocate land to companies for development. After that we will engage at the national level.”

Once the pilots show proof of concept, if KEEs are rolled out across Indonesia with agreement at all levels of government, this would signal the country’s commitment to production while providing protection for key conservation areas. Such a signal could improve palm oil’s reputation in the global market and increase export opportunities for Indonesia’s producing companies, while putting Bumitama at the forefront of these efforts.

Table 1: A palm oil company’s business opportunities realized by engaging at the landscape level

Table 1 summarizes the key business motivations for a palm oil company to engage in a landscape approach in Indonesia. It is built around the experience of Bumitama and the main commercial opportunities realized by the company by engaging with the program and why a landscape approach in particular was necessary to achieve its objectives.

Type of business Opportunity	Specific impact driver	Business/ financial implications	Why can these opportunities not be addressed within company boundaries?
Type of business opportunity	What specific driver poses an opportunity to the business?	What could this impact mean financially for the business?	Reason why the realization of the opportunity requires a landscape approach
Opportunity: Mitigating reputational risks and maintaining customer loyalty	The company risks losing sales with its primary customers due to potential no-deforestation non-compliances beyond the company boundaries that could be associated with the company. This risk can be mitigated by showing the company is serious about the implementation of its policy on the ground.	Reduced financial returns as market options reduce and sales decline.	The company improves accessibility to the communities and smallholders inside and around its concessions through its various CSR programmes, which offers a good entry point to work together, building trust with communities and raising awareness about fire prevention and sustainable production activities.
Opportunity: Attracting new buyers	The establishment of a KEE can facilitate a region at large to be recognized as a sustainable jurisdiction. The company can secure new international contracts with large buyers in sustainable commodity markets looking for sustainable product sourcing areas.	Increased revenue through increased prices regionally and increased sales volumes from new buyers.	The participation of other private sector actors operating in a region is required to market the entire jurisdiction as ‘sustainable’. The approach provides a certain level of assurance that legality and environmental and social elements have been approved with the government before the area is given to the company for development.
Opportunity: Attracting conservation finance	The combined scale of the set aside areas gives companies involved a stronger case for attracting conservation finance. The governance mechanism of the KEE also provides reassurance to investors, and increases the opportunity for set asides to be commercially viable.	Potential for new revenue streams as the company confirms external finance to ensure conservation of set-asides.	Via a traditional certification model, HCV areas set aside by companies would be considered as individual patches of forest and would have likely be sold on by the government. A landscape approach provides a platform for companies to work together and establish connectivity between parcels of land. It thereby reduces risks of being associated with deforestation and can increase attractiveness of the landscape to conservation finance.
Opportunity: Ensuring a license to operate	The company needs to build trusted relationships with local communities to ensure the company maintains a social license to operate in the area and reduces any future risk of conflict.	Potential to prevent future costs in regards to conflict resolution.	A landscape approach includes work beyond the company’s concessions. It involves work with communities on level land use planning and alternative livelihoods via participatory processes.
Opportunity: Mitigating reputational risks: improving ‘brand palm oil’	The palm oil industry’s reputational issues can be ameliorated by the endorsement and country wide roll out of KEEs by the Indonesian government.	Potentials for increased revenues from increased export opportunities.	Government endorsement of sustainable jurisdictions is crucial for the success of the KEE. The country’s complex multi-layered governance mechanisms require engagement at all levels by multiple stakeholders. This can be facilitated by stakeholders who specialise in this type of engagement.

Authorship and acknowledgements

This case study was produced by IDH, the Sustainable Trade Initiative, as part of the IDH Landscape Case Study Series on “The Business Case for Engaging in Landscape Approaches”. IDH was supported in the drafting and research for this case study by PwC. We are grateful to Bumitama for the information given on their initiative in Indonesia, and in particular for the input from Liam Sian Choo and Martin Mach.