Systemic Approaches to Addressing Material Palm Oil Financial Risks
World Bank, Land and Poverty Conference, March 2017
Who We Are

Chain Reaction Research

- A long-term partnership between Aidenviornment, Climate Advisers and Profundo
- Analyzing economic drivers of deforestation and forest-related commodities in Asia, Africa and Latin America

Climate Advisers

- A mission-driven policy, politics and capital markets B-Corp shop working to deliver a strong low-carbon economy
- In the United States and around the world, we create and implement large-scale, cost-effective strategies to strengthen climate action and improve lives
Palm Oil: Supply Side and Demand Side Concerns

Supply Side
- Deforestation drives climate change
- Child-, forced-, slave-labor
- No gender empowerment
- Corruption, collusion
- Indigenous Peoples rights and land grabbing

+ Demand Side
- 365 zero-deforestation and NDPE policies
- Banking financing reputation risks
- Stock market reputation risks
- Divestment

= Both Stranded Assets (Land) and Material Financial Risks
Stranded Land: Western Indonesia
Stranded Assets: Intersection of Supply and Demand

• Stranded assets are material financial risk
• 29 percent of palm oil concessions cannot be developed without violating No Deforestation, No Peat, No Exploitation (NDPE) and zero-deforestation policies
• 6.1 million hectares stranded land – 3 percent of total Indonesian land area
Stranded Assets: Unknown to Capital Markets

- Stranded land are “stranded assets that have suffered from unanticipated or premature write-downs, devaluations or conversion to liabilities”
- 95 Indonesian palm oil companies each include at least 1,000 ha of stranded land
- 10 percent of Indonesia’s total land for palm oil concessions in the last 25 years, stranded land is material economic concern
- Stranded land not included in current financial modeling on Wall Street
- Billions of dollars at risk
Material Financial Risks: Palm Oil

Financial Risk Management

- Business Risk
  - Default Risk
  - Bankruptcy Risk
  - Downgrade Risk
  - Settlement Risk
- Credit Risk
- Reputation Risk
- Liquidity Risk
- Operational Risk
- Strategic Risk
- Market Risk
  - Interest Rate Risk
  - Equity Price Risk
  - Foreign Exchange Risk
  - Commodity Price Risk
- Regulatory / Legal Risk
Material Financial Risks: Palm Oil

• Business Risk: Austindo Nusantara Jaya, others in Indonesia
• Credit Risk: Moody’s review downgrade of IOI Corporation
• Reputation Risk: HSBC $18 billion palm oil financing, 30,000 customers complain
• Liquidity Risk: IOI Corporation losses 27 corporate buyers, can’t sell CSPO, Q2 2016 earnings negative $14.8 million
• Operational Risk: SGSOC and CDC, Cameroon, 244 farmers complain re: FPIC about possible 20,000 ha land-grab
• Strategic Risk: Swedish corporation AAK made a NDPE policy as it acquired California Oils in September 2016
• Market Risk: Nigerian FOREX exclusion policy increases palm oil production costs
• Regulatory / Legal: EU Commission 2020 may ban non-certified
“It only takes a handful of sizeable companies to reach a tipping point and to transform markets.”

- Paul Polman, CEO, Unilever

- CDP $900 billion revenue-at-risk annually linked to deforestation
- Self-reporting by 187 companies in 2016
- Companies on average 24 percent of their revenues dependent on commodities linked to deforestation
- Next step: Encourage banks that underwrite palm oil to adopt stronger ESG policies
Where We’re Going

• Our program has grown 600% last 14 months, and on track to expand

• We welcome partners who will help deepen our reach in the palm, soy, timber and cattle sectors and the broader forest commodity market
Thank You

Gabriel Thoumi, CFA, FRM
Director Capital Markets, Climate Advisers
thoumi@climateadvisers.com
1320 19th St. NW | Suite 400 | Washington, DC 20036
202.350.4650 | www.chainreactionresearch.com