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Golden Agri Scheme Gains Traction

By *Kevin Brown* in Singapore

Flayed by environmentalists, denounced by animal lovers and abandoned by western consumer products groups, Indonesia's Golden Agri-Resources ought to be on its knees. So why is the country's biggest palm oil producer by sales achieving soaring sales and record profits?

Singapore-listed Golden Agri looked in serious trouble in mid-2010 as western consumer products groups such as Nestlé, Unilever, Burger King and Kraft Foods stopped buying its palm oil products, worried by a clamorous boycott campaign by Greenpeace, the environmental activist group.

Greenpeace pulled no punches, producing a series of hard hitting reports on the group, which it refers to by the trade name Sinar Mas. The content is complex and disputed, but the argument is clear: Golden Agri destroys virgin forest, releases trapped carbon and threatens rare animal habitat.

Faced with this pressure, Nestlé and other western companies quickly bowed to Greenpeace's boycott demands. Just over a year later, though, Golden Agri looks more victorious than vanquished.

Six weeks ago, the group reported an increase of 166 per cent in net profit to \$411m for the six months to June, compared with the equivalent period for the previous year. Revenue was up 127 per cent to just over \$3bn. Earnings before interest, tax, depreciation and amortisation rose 115 per cent to \$561m, roughly double last year's equivalent, and nearly four times the 2009 level.

The conclusion seems to be that the Greenpeace campaign had little effect on Golden Agri, in spite of its success in pressuring western food manufacturers to stop buying. The truth, though, is more nuanced.

Golden Agri and other palm oil producers are benefiting from a historic run-up in prices that has changed the economics of the industry. With crude palm oil trading in Kuala Lumpur at about M\$3,064 (\$992) a tonne on Tuesday the plantation groups are making nearly M\$2,000 a tonne more than their costs of production – an awfully big margin.

However, high prices are small compensation if your buyers are on strike. But most are not. Much of the growth in demand is in booming Asia, not the stagnating west. Before the suspensions of sales, Nestlé accounted for just 0.2 per cent of Golden Agri's revenues and Unilever 3 per cent, according to Ivy Ng, an analyst at CIMB in Kuala Lumpur.

In spite of its small exposure to the west, Golden Agri was hurt by the Greenpeace campaign and responded initially by denying most of the allegations. But it also stepped up efforts to have its plantations

certified as sustainable by the Roundtable on Sustainable Palm Oil, a Swiss-based organisation that involves plantation groups, bankers, traders and environmental campaigners.

One reason for its certification drive was its small but significant downstream division, which makes cooking oils and margarines. This is focused on Indonesia but is expanding into India, China, Africa and Latin America. In the long term, these brands may provide more stable returns than crude palm oil, a commoditised product whose price has fluctuated violently. Certification makes them easier to sell in international markets.

Last week, the group quietly announced that its strategy was succeeding, noting that PT Smart, one of its Indonesian subsidiaries, had been awarded RSPO certification for a small plantation and mill in Sumatra. Golden Agri says this is the first step towards certification of all its production by 2015. A day later, it said that Nestlé had placed an order for palm oil for use in its own Indonesian factory. The Swiss food manufacturer says it is satisfied that Golden Agri can meet its sourcing guidelines, which are separate from the RSPO process.

Some critics say that the RSPO process does not reflect real environmental issues. It is certainly true that sustainability is a slippery issue and that the RSPO process is controversial. The difficulty of defining sustainability, combined with the complex supply chain, could mean that some foods sold with the RSPO certification might contain no sustainable palm oil at all.

Yet both supply and demand for sustainable oil are rising as the scheme gains traction. According to the Roundtable, about 1m hectares of plantation land has now been certified globally – more than double Golden Agri's total planted area.

The scheme is not perfect. But the Indonesian group's decision to pursue certification is important because it shows that Asian palm oil producers can be persuaded that environmental issues are important, even if most of their customers remain largely unconcerned.

Nestlé has rightly made further orders from Golden Agri contingent on continued progress. But bringing the palm oil giant within a framework of global standards, even if they are flawed, is an advance in environmental protection. It should also be good for Golden Agri.

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