



RSPO Gap Analysis and Strategic Recommendations

An Analysis of RSPO Requirements and the Establishment of a Roadmap for Certification for Anglo-Eastern Plantations Plc



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Executive Summary

To further embrace their sustainability objectives Anglo-eastern Plantations plc has been considering to certify their plantations with the Roundtable on Sustainable Palm Oil (RSPO). The RSPO Gap Analysis & Strategic Recommendations is a desktop study for identifying and evaluating the gaps between the requirements for RSPO certification and the current situation at Anglo-Eastern Plantations Plc (AEP). The study hopes to produce a clear guide in the form of a roadmap that aids in decision-making and planning vis-à-vis RSPO certification. The research data was collected primarily through the company's in-situ assessments, compliance data, and internal & public reports or disclosures. The company's sustainable division provided the relevant critical information.

The first part of the report details the RSPO requirements, which has been divided into two (2) main components: eligibility requirements & certification requirements. These requirements were analysed and gaps in their implementation were identified, before strategic recommendations were formulated to close the non-compliances. Among gaps identified are issues related to land legality, peatland cultivation, incomplete or missing High Conservation Value (HCV), Free, Prior and Informed Consent (FPIC) or Social Impact Assessment (SIA) studies. These gaps have to be fully closed in order for AEP to be eligible for certification. The steps needed vary between different estates or Unit of Certifications (UoC) which are currently in different states of readiness for certification. Some of the steps required include the obtaining of land titles (HGU), conducting additional HCV, FPIC or SIA assessments, performing Land Use Change Analysis (LUCA) reviews and determining the Remediation and Compensation Procedure (RaCP) requirements.

*All these additional steps require substantial amount of costs and resources to undertake. These costs are difficult to estimate as they depend greatly on the situation on the ground, and may require further consultation/negotiation with RSPO themselves. Nevertheless, a rough estimate has been calculated which amounted to around USD 18 million to certify the entire group. The majority of the cost (96%) will involve the RaCP, which requires compensation to be paid for land clearance and plantation development undertaken since November 2005 without prior HCV assessments. As AEP operates as a Group with a central control, partial certification is not allowed under RSPO. AEP will have to ensure that all their UoC's are certified within a specific time-bound plan and be certified under **Group Membership Type 1: Corporate Group**. Although there is an option to remove certain 'non-performing' UoC out of the Group, this is not recommended as it will involve too a complicated a process which is beyond the scope of this study, and may invite queries from RSPO as well as intense scrutiny from NGO's and activists.*

AEP will have to make a decision on whether the additional costs and resources required for RSPO certification will be a worthwhile undertaking. Reports have suggested that Identity Preserved (IP) RSPO-certified palm oil is estimated to carry a premium of around USD 30 per ton, although demand may be limited and the premium fluctuates greatly. How this premium will translate into better profitability over the long run for the Group is something that needs to be carefully considered. Additional manpower and resources will also have to be deployed to conduct many of the suggested remedial actions, and subsequent improvements. These are some of the factors that need to be considered by AEP before deciding on the next course of action.

Abbreviation

ACOP	Annual Communication of Progress
AEP	Anglo-Eastern Plantations
ALS	Assessor Licensing Scheme
AMDAL	<i>Analisis Manajemen Dampak Lingkungan</i> / ESIA Report
CB	Certification Body
CSPO	Certified Sustainable Palm Oil
FFB	Fresh Fruit Bunch
FPIC	Free, Prior, Informed Consent
GRTT	<i>Ganti Rugi Tanam Tumbuh</i> / Indemnity Growing
HCS	High Carbon Stock
HCV	High Conservation Value
HGU	<i>Hak Guna Usaha</i> / Land Title
IP	Identity-Preserved
ISPO	Indonesian Sustainable Palm Oil
LUCA	Land Use Change Analysis
Mt/mt	Metric ton
MSPO	Malaysian Sustainable Palm Oil
NGO	Non-Governmental Organisation
NPP	New Planting Procedure
P&C	Principle and Criteria
PMO/POM	Palm Oil Mill
RaCP	Remediation and Compensation Procedure
RSPO	Roundtable on Sustainable Palm Oil
SIA	Social Impact Assessment
UoC	Unit of Certification / Palm Oil Mill and Estates

Introduction

General

The increased demand for palm oil and its exponential rise has directly impacted the sector's public profile, resulting in intense scrutiny from many levels of society. Of late, palm oil has been the focus of many consumers, activist, and media campaigns in buyer markets as well as regular counter-campaigns from the locals in producing countries. Environmentalists have focused on the impact on biodiversity and climate change caused by the loss or burning of tropical forests and the draining of peatlands caused by this mono-cropping. Social non-governmental organisations (NGOs) appear

to have different perspectives on the industry's effects on indigenous people, land rights (including customary lands), labour rights, and local communities; other than the often-touted economic improvement and better livelihood trumpeted by producer countries. Against this background, calls to make palm oil production sustainable grow louder each year, resulting in the formation of many different initiatives, multi-stakeholder collaborations and certification standards to further guide the sector towards greater sustainability.



**FULFILLS INCREASING
GLOBAL FOOD DEMAND**



**SUPPORTS AFFORDABLE
FOOD PRICES**



**SUPPORT POVERTY
REDUCTION**



**SAFEGUARDS SOCIAL INTERESTS,
COMMUNITIES AND WORKERS**



**PROTECTS THE
ENVIRONMENT AND WILDLIFE**

Figure 1.0: The Need for Sustainable Palm Oil (RSPO)

Company Background

Anglo-Eastern Plantations Plc was formed and floated on the London Stock Exchange in 1985 to acquire and develop four estates in North Sumatra, previously owned by several UK based plantation companies. The Company has developed over 60,500 hectares of mature oil palm at approximately 16 plantations across Indonesia and one

plantation in Malaysia. The Company operates approximately six palm oil mills in Indonesia, processing up to a combined 310 metric tons (mt) of fresh fruit bunches (FFB) per hour. It has purchased approximately 913,200 mt of FFB from third-party producers (PT SSP), comprising small plantations and local farmers, for processing

through its mills. Its rubber plantations produced approximately 465 mt of raw latex and rubber lumps. Four of its six mills are equipped with biogas plants to capture the methane gas emission to generate electricity. It operates a planted area of approximately 73,600 hectares (Inti and Plasma scheme), which includes North Sumatera, Bengkulu, Riau, Bangka, South Sumatera, Kalimantan, and Malaysia (AEP website).

14 out of 17 Anglo Eastern Plantations Plc plantations have demonstrated their

commitment to producing sustainable palm oil by certifying with Malaysian Sustainable Palm Oil (MSPO) and Indonesia Sustainable Palm Oil (ISPO). The remaining three plantations, namely PT Empat Lawang Agro Perkasa, PT Karya Kencana Sentosa Tiga and PT Riau Agrindo Agung are still in the process of implementing the appropriate sustainability certification. To complement these initiatives, the company is currently also considering to certify their plantations under RSPO.

Roundtable on Sustainable Palm Oil (RSPO)



Figure 2.0 : Current situation with RSPO certification as of Dec 2021 (RSPO)

The Roundtable on Sustainable Palm Oil was formed through a multi-stakeholder collaboration involving producers, buyers, governments, and civil society to address palm oil sustainability issues. The stated objective of the RSPO is to "transform markets to make sustainable palm oil the norm."

As a comprehensive production standard and certification system, the RSPO integrates superior management and agricultural practices, environmental and social risk management tools, and a process for validating and credibly conveying that information to end consumers.

The RSPO aims to do this by establishing, implementing, verifying, monitoring, and reviewing reliable global standards for the whole supply chain of sustainable palm oil and including all supply chain stakeholders, including civil society and governments, in this process.

The development of standards and the expansion of the RSPO constituency have brought together many stakeholders from oil palm producers, processors or traders, consumer goods manufacturers, retailers, banks/investors, and environmental and social NGOs. To produce Certified Sustainable Palm Oil (CSPO), companies must meet a set of environmental and social criteria specified by the RSPO. These criteria,

when correctly used, can assist in reducing the detrimental impact of palm oil production on the environment and communities in palm oil-producing countries.

The RSPO now has over 4,000 members worldwide who represent every level of the palm oil supply chain. They have pledged to produce, source, and/or utilise RSPO-certified sustainable palm oil. Walmart, Marks & Spencer, Unilever, Nestle, and several other large brands and merchants have committed to sourcing solely CSPO (WWF, 2011).

Certification usually entails assessing current production processes, identifying non-compliance with the standards, implementing an action plan to resolve those areas, and lastly, audits by a recognised certification body. Growers must also agree to a time-bound strategy to certify the balance of their operations as part of the CSPO certification process (RSPO website).

Differences between RSPO, MSPO, and ISPO

RSPO Principles:

- Behave ethically and transparently
- Operate legally and respect rights
- Optimize productivity, efficiency, positive impacts, and resilience
- Respect community and human rights and deliver benefits
- Respect workers' rights and conditions
- Protect, conserve, and

MSPO Principles:

- Management commitment and responsibility
- Transparency
- Compliance with legal requirements
- Social responsibility, safety, and employment conditions
- Environment, natural resources, biodiversity, and ecosystem services
- Best practice
- Development of new plantings

ISPO Principles:

- Legality of plantation businesses
- Plantation management
- Protection of utilization of primary forests and peatlands
- Environmental management
- Responsibility for workers
- Responsibility for social and economic empowerment
- Continuous business improvement



Study Objectives

Anglo-eastern Plantations strives to inculcate a culture of sustainability in its operations in line with industry practices. The company has pledged a strict No-Deforestation, No-Peat and No-Exploitations (NDPE) policy since 2019. Apart from incorporating Best Management Practices (BMP) in its operations, the company also measures its greenhouse gases (GhG) emissions and set targets to reduce them. As of 2022, all of the Company's plantations in Malaysia have been certified with the Malaysian Sustainable Palm Oil (MSPO), and all their plantations in Indonesia are scheduled to be certified with the Indonesian Sustainable Palm Oil (ISPO) by year-end.

To further enhance their sustainability objectives the company has been for some time considering to certify their plantations with RSPO. In recent times they have also been challenged to do a detailed, quantitative analysis on the costs and benefits of RSPO implementation by their investors/shareholders. This study therefore was commissioned to look into the Company's eligibility for certification by comparing the relevant requirements with the company's preparedness for certification. Any existing gaps for full compliance were to be identified, and suggestions made to close them. Costs to close the gaps, achieve full compliance and proceed with certification were to be estimated. A roadmap to aid in decision-making and planning vis-à-vis RSPO certification were then presented.

A schematic diagram to illustrate the Company's questions with regard to RSPO certification is as shown below:

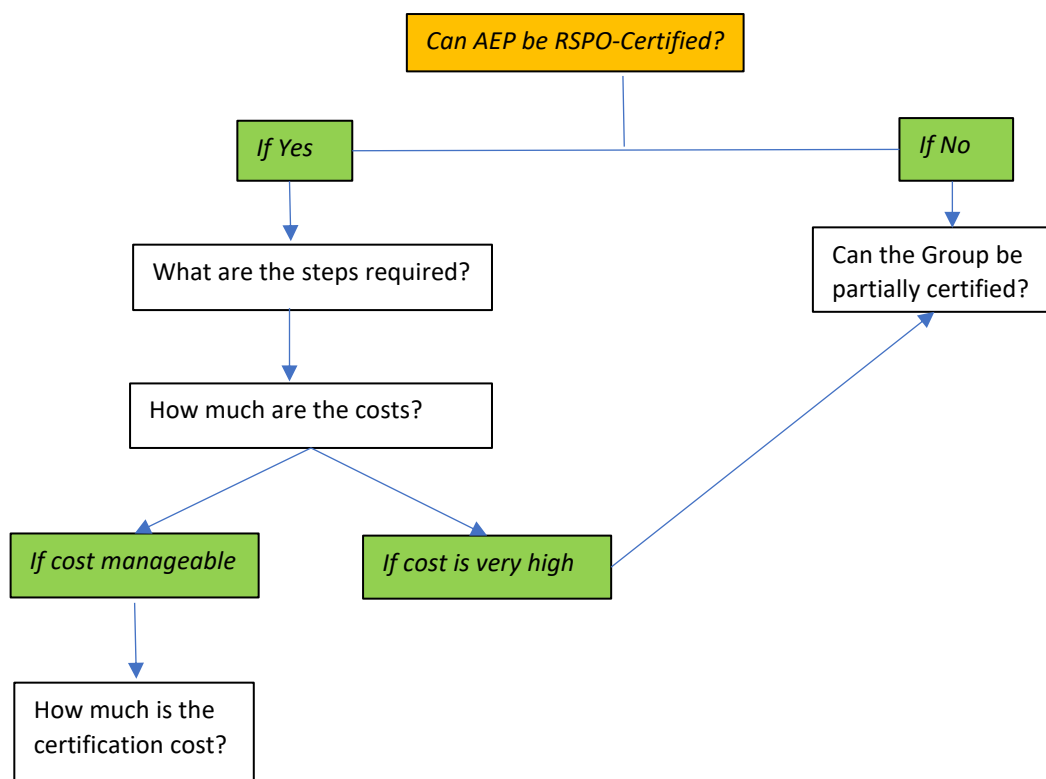


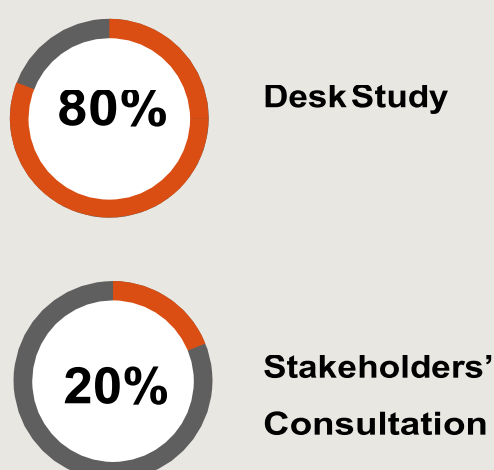
Figure 3.0: AEP's questions regarding RSPO certification

Methodology

The study is based on a comprehensive analysis of the Principles and Criteria (P&C) of RSPO and its related informative & normative documentation. Assessment has been carried out against the relevant public and applicable internal documentation provided by the Company. The RSPO Gap Analysis & Strategic Recommendations has been carried out via the following methods;

Company's existing documentation/ implementations against RSPO's Principles & Criteria requirements to find existing synergies and differences between the mentioned. The study was carried out using the methodology mentioned above, which involves the following steps:

Methods Relevancy



Consultation was also carried out with various stakeholders, such as:

- a) Certification body(ies) such as Control Union (Malaysia) Sdn Bhd and Control Union Indonesia;
- b) Technical experts: quality, social, environmental, economics, and legal experts across Peterson Control Union working group.
- c) The sustainability division at AEP

The consultant uses a cross-referencing and comparative data analysis approach in conducting this study. The cross-referencing method is often used to compare the

STEP 1: Screening the scope of the assessment

A quick scan of all publicly available documents to identify significant economic, environmental, and social conflicts that fall under the scope of the assessment. Specification of the depth and extent of the assessment based on the objectives of the study and its potential impacts to the company.



STEP 2: Selecting tools or methodologies to match the scoping

Selection of the most appropriate tools and methods for analysing the gaps based on the information received



STEP 3. Ensuring stakeholder participation

Involvement of stakeholders & experts, e.g., AEP management, certification body, consultant, and experts through various means in different stages of the sustainability impact assessment.



STEP 4: Analysing the Gaps

The assessment of all eligibility and mandatory criteria for RSPO, includes the assessment checklist on critical RSPO requirements and matching them with the current situation at AEP.



STEP 5: Proposing Remedial Actions

Identify the synergies, conflicts, and trade-offs across identified economic, environmental, and social impacts and proposing options on how to close the gaps.



STEP 6: Estimating Costs

Evaluation and interpretation of the data obtained to derive an estimation of the cost anticipated.



STEP7: Suggesting a Roadmap for Certification

A guideline on how AEP could certify their plantations are presented, should AEP decide to go for certification.



STEP8: Concluding the Report

The report is concluded.



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Conclusion

A significant amount of effort is required to certify AEP's plantations with RSPO. Although the company is already performing close to the industry's best management standards based on their disclosures, significant barriers remain that can serve as a bottleneck for the certification process. Most of these involve their past development and land use. Apart from the financial allocation AEP would also need to ensure a competent internal team for the preparation of documents, as well as specific requirements such as RaCP calculations and negotiations with RSPO. On top of that, other additional assessment for HCV, HCS, FPIC, SIA would require round-the-clock monitoring even with the guidance of external consultants. All these would need to be considered before deciding to certify.

According to an RSPO report, the results of an international study carried out by the American Oil Chemists Society amongst 9 major producers of RSPO certified sustainable palm oil identified several benefits from RSPO certification. Amongst the most important benefits are reduced emission of greenhouse gases, better waste management, reduced usage of pesticides, improved compliance with regulatory requirements, reduction of workplace accidents, and enhanced productivity. As AEP has already been incorporating many sustainable practices in line with industry standards in their operations, the benefits mentioned above will not be consequential for them. Another report by WWF (2012) also lists down other indirect benefits of certification such as the reduction of social conflicts, operational improvements through documentation and better management practices, improved staff morale and reduced labor turnover, as well as revenues and market access and better access to capital.

Based on a report by Bloomberg (2019), certified sustainable palm oil (CSPO) carries a premium of about \$30 a ton to the non-certified kind, though this can vary significantly depending on amounts purchased and negotiations between buyers and sellers. Research carried out in 2019 by Proforest and WWF mentioned the premium paid for CSPO to be lowest for the book and claim method at around US\$2.50 to \$3.50 per ton; while that rose to US\$6-17 for mass balance palm oil, and US\$25-30 for segregated and IP CSPO (Segi Enam, 2019). Premiums also fluctuates considerably with market demand, which may be limited at certain times. To gain certification on the other hand, it costs producers at least \$8 to \$12 a ton, on top of all additional expenses like audit fees, logistics and environmental assessments required. For companies like AEP, additional costs for the preparation for certification, including the very substantial amount required for RaCP will also have to be taken into consideration. The current sales of CPO for all 17 estates of AEP have been estimated at around 240,000 tons annually. This could translate into an additional benefit of 4 million USD per year for the Group, if all the CSPO could find buyers. The reality on the ground may differ however as there have been reports of poor uptake of CSPO with some producers even selling them below cost (Bloomberg, 2019).

With RSPO certification, AEP can expect a positive impact on the company's image and credibility since it is the main certification standard globally accepted for palm oil and its derivatives. It is also more widely accepted by international consumers. Sustainability platforms such as SPOTT and CDP also place more emphasis on RSPO certifications and being certified could positively affect AEP's rankings for their disclosures. At the same time, less scrutiny can be expected from NGO's or other social organisations, and less pressure may come from shareholders or investors to be transparent.

This assessment has been carried out with limited resources via desk study. Implementation processes might differ accordingly to the situation on the ground. Estimates for the cost are calculated based on our best knowledge of market rates and available online sources, and therefore can differ considerably on the ground.

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