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# Cargill's Supply Chain linked to Deforestation in Papua

**"We know we can do it"?**



# Background

Purchases of palm oil from PT Eagle High Plantations Tbk by PT Poliplant Sejahtera, a company that was acquired by Cargill at the end of 2014, reveals that Cargill has not yet managed to distance itself from deforestation. Such purchases by Cargill are clearly not in accordance with IPOP and the company's commitment to "clean up its supply chain from deforestation."

**Cargill CEO Dave MacLennan has stated that "we know we can do it," referring to the protection of forests in all its agricultural supply chains.** This statement was contained in a press release issued prior to the signing of IPOP at the UN Climate Summit on 24 September 2014 in New York. Given this, Cargill needs to explain to the public why MacLennan's statement has not been translated into reality on the ground.

The finding that Cargill's supply chain continues to be associated with deforestation means that deforestation still plays a role in the supply chains of all five of the palm-oil groups that signed IPOP – Cargill, Golden Agri-Resources, Wilmar, Asian Agri and Musim Mas.

At the time when these purchases of palm oil were taking place during the first quarter of 2015, PT Varia Mitra Andalan (VMA), a subsidiary of PT Eagle High Plantations Tbk, was just starting to clear high carbon stock (HCS) forest for the development of the new oil palm plantation in West Papua Province.

The clearing of HCS forest accelerated until at least the end of March 2015. This leads us to the inescapable conclusion that Cargill's supply chain is still not deforestation-free, or at least was not deforestation-free during the first quarter of 2015, although the volume of palm oil purchases by the Cargill subsidiary was not as large as those of Golden Agri-Resources and Wilmar, two other IPOP signatories.

This report highlights the level of destruction of HCS forest in Indonesian Papua by the supplier of Cargill and two other IPOP signatories, particularly during the first quarter of 2015, the period in which the relevant palm oil purchases took place. The report presents a number of conclusions and recommendations that should, at the very least, be taken into consideration by the IPOP signatories and IPOP secretariat.

## Methodology

The report uses Landsat 8 images to reveal the acceleration of HCS forest clearance on the concession of a subsidiary of PT Eagle High Plantations Tbk during the first quarter of 2015. The land cover data stated on VMA's forest area relinquishment license is used as the basis for determining the composition of the HCS forest found on the concession.

The report also refers to the official 2013 land-cover interpretation by the Ministry of Environment and Forestry. Google Earth was employed to visually observe the land cover on the VMA concession. Information on the palm oil purchases by Cargill and the two other IPOP signatories is based on the consolidated financial statements of PT Eagle High Plantations Tbk, which are accessible by the public through the Indonesia Stock Exchange.

# Cargill supply chain still involves deforestation

The purchases of palm oil by Cargill from a company that clears HCS forest clearly shows that Cargill's supply chain continues to be associated with deforestation, at least in the period up to 31 March 2015.

Before PT Poliplant Sejahtera was acquired by Cargill in late December 2014, the company was registered as a customer of PT Eagle High Plantations Tbk. As one of the signatories of IPOP, Cargill should, of course, have studied the supply chain of PT Poliplant Sejahtera before allowing it to continue as a customer of PT Eagle High Plantations, given that its new subsidiary had commenced the development of a new plantation by clearing HCS forest in West Papua.

Naturally, the question arises as to why Cargill decided to retain PT Poliplant Sejahtera as a customer of PT Eagle High Plantations Tbk. Was it because Cargill did not know that a subsidiary of the company was developing a new oil palm plantation in West Papua by clearing HCS forest or was it because Cargill failed to conduct any assessments before making the decision to retain PT Eagle High Plantations Tbk as a customer? Or, was it simply a case of business as usual?

Although the palm-oil purchases by the Cargill subsidiary did not exceed 10% of the total sales of PT Eagle High Plantations Tbk during the relevant period, the fact that the Cargill subsidiary continued to make such purchases clearly shows that Cargill has maintained trading relations with a company that remains involved in deforestation – something that is obviously not in line with IPOP and Cargill's commitment to forest protection in all its agricultural supply chains, including in the palm oil sector.

# Largest Purchasers: Golden Agri Resources and Wilmar

Golden Agri Resources is the largest buyer of palm oil from PT Eagle High Plantations Tbk, followed by Wilmar. In fact, both palm oil groups base their purchases from the company on an advance-payment system. In the context of cleaning up their supply chains from deforestation, Golden Agri-Resources stated that this process would commence in early March 2014. Meanwhile, Wilmar has also announced its commitment through a high-profile zero deforestation policy, which was launched in early December 2013. In addition, both groups further strengthened their commitments by signing IPOP at the end of September 2014.

In connection with the commitments and pledges that have been announced by Golden Agri-Resources and Wilmar, the fact that two companies are the largest buyers of palm oil from a company that continues to clear HCS forest will need to be addressed, as will the fact that they continue to make advance payments to this company.

Naturally, the two groups will need to explain to the public what the difficulties are in mapping their supply chains before making advance payments to, or purchases of palm oil from, a supplier that continues to be associated with deforestation. Or, do they do nothing to map their supply chains at all prior to making advance payments or purchasing palm oil? Or, do they lack adequate data to conduct supply chain mapping down to the level of new subsidiaries of suppliers that continue to be associated with the development of oil palm plantations through the clearance of HCS forest?

Another thing that needs to be explained is the extent to which the existing procurement policies of the IPOP signatories, primarily Golden Agri-Resources and Wilmar in this case, establish stages that must be gone through by their trading departments, having regard to IPOP-based procurement policies, before making advance payments or purchasing palm oil from suppliers.

IPOP signatories are the biggest buyers of palm oil from suppliers listed on the Indonesia Stock Exchange, whose subsidiaries continue to develop new plantations, including through the clearing of HCS forest.



# Supplier of Cargill and two other IPOP signatories commences development of new oil palm plantation by clearing HCS forest

In late June 2013, VMA obtaining a forest area relinquishment license from the Minister of Forestry covering an area of over 20,000 hectares located in Wayer and Moswaren Districts, South Sorong Regency, West Papua Province. According to this license, the bulk of the land cover on the concession consisted of secondary forest (which is categorized as HCS forest).

Landsat 8 images taken on 3 January 2015, 20 February 2015 and 8 March 2015 show changes in land cover on the concession, with the commencement and expansion of HCS forest clearance as shown below:



The changes in land cover shown above reveal that in the first quarter of 2015, while Cargill, Golden Agri-Resources and Wilmar were still buying palm oil from the parent company of VMA, the clearance of HCS forest on the concession continued to escalate.

This means that at the time when palm oil purchases were being made by the three IPOP signatories, HCS forests were being cleared on the VMA concession. This clearly shows that the goal of achieving a deforestation-free supply chain has not been achieved.

## Conclusions

- Surprisingly, Cargill continues to apply a business-as-usual approach by sourcing palm oil from a company that is involved in deforestation. Thus, Cargill's supply chain cannot be categorized as deforestation-free, at least not as of the end of first quarter of 2015.
- None of the IPOP signatories had been able to make their supply chains deforestation-free, in contravention of the commitments they made.

## Recommendations

- Cargill needs to explain the gap between "we know we can do it," as trumpeted by its CEO in reference to the protection of forests in "all its agricultural supply chains," and the reality of its palm-oil sourcing on the ground.
- The IPOP signatories also need to make their positions clear as regards the many findings that reveal a widening gap between the pledges they have signed and the facts on the ground.

## **This leads us to the inescapable conclusion that Cargill's supply chain is still not deforestation-free**

**IPOP-OBSERVER** – an initiative by Greenomics Indonesia to identify the extent to which IPOP is being implemented in Indonesia – uses the results of spatial monitoring, field observations and legal analysis to question the extent of the role played by IPOP signatories in providing solutions to their suppliers in their efforts to fulfill one of the objectives of IPOP, namely, to find solutions for sustainable palm oil that is deforestation free. The main purpose of IPOP-OBSERVER is to share lessons learned from the implementation of IPOP.

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