

# Written questions ordinary general meeting SIPEF dated 9 June 2021

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- 1. Recently, Indonesia increased the export tax for the month of June to USD 183/tonne; this is in addition to the export levies of USD 255/tonne. Earlier, the CEO stated that he expected these export taxes to be reduced in due course, because the biodiesel program in Indonesia was sufficiently funded. Now, rather the opposite is happening. Can you give an update of your views on these taxes on palm oil in Indonesia and whether palm oil in Indonesia is still profitable in the long run?**

In early December 2020, a new matrix was published, where, in addition to the progressive matrix for the export tax, a progressive export levy was also determined. The recent increase is fully in line with the existing rules on export taxes and export levies. As a reminder, the **export tax** is used to finance the development of a downstream palm oil sector and the replanting of the palm areas of small, independent farmers, while the **export levy** is used to cover the operating deficits in the production of biodiesel from palm oil. These deficits occur when the price differential between palm oil and crude oil is too large. In such a case, without a subsidy, biodiesel from palm oil would no longer be competitive with crude oil.

According to our analyses, the biodiesel program in Indonesia is indeed sufficiently funded. Thus, a modification of the existing systems is a political matter, the timing of which is very difficult to predict.

At the end of last week, a number of rumours appeared in the market announcing a decrease in the export levy. This could reduce the total tax on palm oil in the form of a tax and levy by about 100 USD/tonne for palm oil prices between 950 and 1 300 USD/tonne. At lower levels, there is a more modest decline.

In response to the profitability of the palm oil operations in Indonesia, the following:

- 1) As the shareholders will notice with the publication of the half yearly results, palm oil is still very profitable at the current sales prices of over USD 1 000/tonne and the current tax levels. However, the profit potential in Indonesia is clearly capped by these taxes. At present, the Group's activities in Papua New Guinea are the most profitable. But once the palm oil price drops back below USD 800/tonne CIF Rotterdam, all mature operations in Indonesia will again be more profitable than in Papua New Guinea and many other places in the world. So SIPEF still believes very strongly in the future of palm oil in Indonesia.

However, it cannot be denied, that the introduction of the increased levies at the end of 2020, after the extremely difficult 2019 and the disappointing 2020, was very sour.

2) Moreover, in our opinion, there is a link between the high Indonesian tax and levy, on the one hand, and the world market prices for palm oil, on the other. It is almost certain that without this high tax the gross palm oil price would not have been at its current level. It is therefore not clear what the net impact of a reduction in taxes will be on the Group's results. Hargy Oil Palms in Papua New Guinea is taking full advantage of the current high prices. Any government intervention has a devastating effect on the transparency of price setting.

**2. The image of palm oil in Europe is very negative. Witness the many packages (marketing driven) with the label "without palm oil". Do you ever see this palm oil "bashing" in Europe disappearing? And how do you see the export of palm oil to Europe evolving in the next few years, taking into account the ban on palm oil for biodiesel in Europe. According to the USDA, the import of palm oil has been fluctuating around 6.8 - 7 million tonnes for the last 5 years.**

Indeed, there is currently an unceasing stream of unsubtle criticism of palm oil in the European and US markets. This is something we do not see in the markets of the Far East. We therefore believe that this is largely about hidden protectionism in relation to European products, such as rapeseed and sunflower oil, and the US soybean market.

Despite the efforts of interest groups such as RSPO, BASP, MPOB and GAPKI to bring some nuance to this debate, they are failing to convince the general public to openly embrace palm oil. The availability of certified 'sustainable' palm oil is largely ignored, as is the efficiency of palm oil, which is from 5 to 8 times more efficient in yield per hectare than competing vegetable oils, with a much lower use of fertilisers and chemicals. Palm oil uses 6% of planted land for world vegetable oil production, but provides 36% of world volume.

The positive impact of palm oil on employment and social development in the regions of Asia and Africa is left aside in the assessment. The efforts made by Indonesia and Malaysia, the two largest producers, to avoid deforestation are not sufficiently cited and deforestation rates continue to fall back on those of more than five years ago, which were justified at the time.

We expect the use of palm oil for biodiesel production in Europe to decline in the coming years, as will be the case for other vegetable oils too. However, this decrease will be more than compensated by an increasing demand in the emerging markets, where a growing population and rising standards of living will mainly drive the consumption of palm oil, both for food and biodiesel.

**3. Despite all the efforts of many palm oil companies, including SIPEF, to highlight sustainability (with very detailed sustainability reports - congratulations on the 2020 report, by the way!), all palm oil and all producers are being lumped together. Congratulations also on the very high SPOTT score of 80.5%/100%! Do you have a certain target in mind to increase this score or to achieve a certain percentage?**

It is SIPEF's endeavour to keep increasing the scores and ratings, which can also be expected of a sustainable palm oil company. We see that most companies are making sustained efforts to improve their score. Therefore, a higher score does not necessarily mean a better ranking. It is also true that each year SPOTT increases the expectations and that, even to get a similar score, more transparency is needed on the applications and evolution of the sustainability criteria. A good example is the GHG baseline and its annual reduction.

We see the SPOTT ranking as one of the elements of the scoring, but in the near future we will also pay more attention to the international rankings of CDP and of ESG in general. After all, it is important for investors to feel supported by an internationally recognised rating of the listed companies in which they invest.

**4. Strong demand for vegetable oils has pushed overall stocks down to their lowest levels since 2010/2011 and is behind the sharp rise in all vegetable oils, including palm oil. How do you see average palm oil prices evolving over the next 5 years, taking into account the expected fundamental trends (consumption in emerging markets, less new plantings, biodiesel in the US/Europe/Asia, price differences with soybean oil and crude oil)?**

**The demand** for palm oil (and vegetable oil, in general) for the food sector continues to grow unchanged at 3-4% per year. This is not expected to change, given the current population growth and the increasing wealth of the middle classes leading to changing dietary patterns.

Four to five years ago, we announced that we were entering a difficult period for palm oil. We estimated this correctly at the time, although our internal stress tests did not take into account a fall below USD 600/tonne. Indeed, the announced use of palm oil for biofuel in Europe was suddenly scaled back, due to a change in the view of biofuel based on imported commodities. This led to an unexpected production surplus, which incidentally also manifested itself in the stocks of other vegetable oils. In the meantime, biofuel activity has started up in the Far East, so that the gap between supply and demand has been closed, and demand from the biodiesel side seems assured for the medium term. The drop in demand in Europe will probably be more than compensated by an increase in demand in the emerging markets.

**Looking at the supply side**, there are several causes that will lead to a rather limited increase in available palm oil:

- In the short term, the historically low stocks and the lack of fertilisation by some of the producers, due to the low palm oil prices in recent years.
- In the medium term, a delay in replanting existing areas, which means that the average age of the existing plantations continues to increase and, consequently, the yields are falling. In Malaysia, the planted areas and the corresponding production have even decreased in recent years.
- In the long term, the ever-increasing pressure on forest conservation and diversity makes further expansion, not only in Indonesia, very difficult.

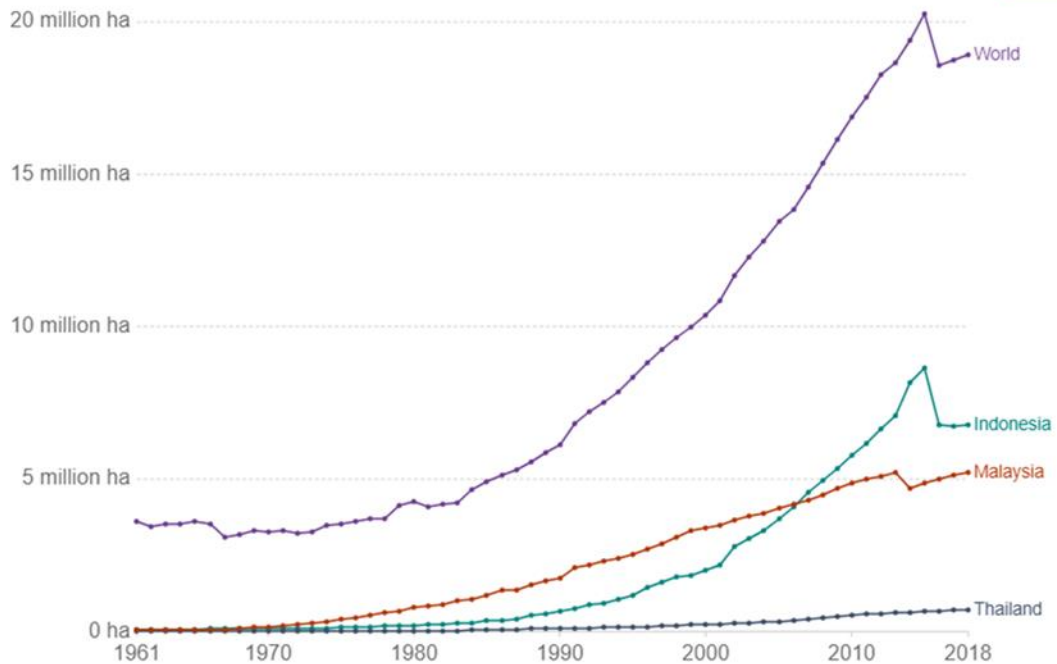
Putting this supply and demand analysis together, we are looking at a strong market for palm oil pricing. We do not see the price dropping below USD 700/tonne for a long time, and even expect USD 800/tonne to be a stable level for the next 5 years. On the other hand, we do not expect current prices of USD 1 100/tonne and above to be maintained, as they are mainly based on temporary shortages in the wider vegetable oil markets.

When analysing the price level of palm oil, we always have to take into account the general commodity markets and the prices of the other vegetable oils like soybean, rapeseed and sunflower. But, also for these crops we see no structural increase that could affect the above conclusion.

**5. Do you have any insight into the evolution of new plantings of palm oil and/or sales of palm oil seeds worldwide? Because this could be an indication that the production is levelling off ...**

Global expansion in oil palm plantations has been phenomenal over the past 40 years. Planted hectares more than quadrupled between 1980 and 2018, but expansion has come to a standstill in recent years. The two largest producing countries, Indonesia and Malaysia, which together account for 84% of world production, but only use 63% of planted hectares for this purpose (due to their efficiency), have still grown. However, governments have made significant efforts to not allow new land to be developed, by introducing a moratorium on palm expansion since 2018. As the graph below shows, there has been no growth in the most recent years, and this trend has continued after 2018. The focus is now entirely on yield improvements. However, this is a long-term effort, as replanting is very slow and a palm cycle lasts more than 20 years.

## Land use for palm oil production



Source: UN Food and Agriculture Organization (FAO)

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The cited restriction on expansion and the lack of sufficient replanting, combined with La Niña weather effects, meant that in 2020, for the first time in a long time, global palm oil production decreased by 4.5 million tonnes, and this decrease has not yet fully recovered in 2021.

### 6. The Barema plantation at Hargy achieves 30 tonnes FFB/ha. Which seeds were planted here and which ones do you use at the moment for new plantings?

Hargy has always done all past plantings with DAMI seeds supplied by the local nursery of NBPOL/SDP. DAMI was developed in Papua New Guinea and, therefore, the selection is fully adapted to the growing conditions in Papua New Guinea with its high rainfall and volcanic soils. For the last 4 years we have been using DAMI Super Family, which are 'semi-clonal' seeds and thus show less variation in seed quality, and also give higher yields per hectare. We will therefore see the average yields/ha in Hargy increase further in the coming years.

Meanwhile in Indonesia, VBS has developed Verdant Select seeds, similar to DAMI Super Family. These seeds are also being used, for the time being, by our Indonesian subsidiaries for 30% of all new plantings, a percentage that we will gradually increase further. We are now also looking forward to the development of higher yielding seeds by Verdant, and expect the F1 hybrid seeds from 2028, which will have a much higher potential.

**7. Despite your policy of not planting in peatland, according to the Global Forest Watch, SIPEF owns 14 hectares of oil palms in peatland. How does this fit in with your commitments in this area?**

Since the introduction of our Responsible Plantations Policy in 2014, which includes the 'No Peat' declaration, no new plantings in peatlands have been made by SIPEF. However, the Company has in the past planted in peatland, at a time when it was not yet considered environmentally harmful, or the Group has acquired land that was developed by others in the past. In the meantime, we continue to manage these lands, to ensure that the potential damage caused by this development is minimised. This means that we ensure that water levels never drop so that there are no CO<sub>2</sub> emissions, that the fauna and flora are protected, etc.

Regarding the specific statement of Global Forest Watch, we would like to specify that it is not always very clear by satellite what the delineation of the concessions is, and which areas belong to SIPEF and are under control of the Company. However, since the introduction of our policy in 2014, we have always been able to demonstrate that any land designated by NGOs and authorities in the vicinity of the Group's concessions has not been developed by SIPEF and does not form part of its portfolio.

**8. Can you compare the SIPEF share with other companies in the business, in terms of profitability per hectare, extraction rate, Enterprise Value per planted hectare?**

In recent years, we have systematically conducted a peer review between SIPEF and a number of other publicly listed plantation companies. For this purpose, we rely on the publicly available information on the websites of these companies. This is, by the way, an exercise that can be carried out by each shareholder.

The last exercise was carried out on the basis of the 2019 annual reports. However, due to the very limited number of analyst meetings in 2020, we did not share this study externally. We will repeat this exercise during the summer months of 2021, based on the information from the 2020 annual report.

The main lines of our 2019 study were:

**Planted hectares:** SIPEF's planted hectares increased by 3.5%, while those of peer review companies (the "Population") decreased by 0.1%. This supports our statement that very few companies are still expanding.

**Average age:** The average age of the palms of SIPEF decreased from 10.32 years to 10.09 years, while that of the trees of the Population increased from 12.31 years to 12.65 years. This shows that there is very little new planting and replanting activity in the Population and that SIPEF, with 10.09 years, has very young plantations in its portfolio, and can still count on significant positive cash flows in the future.

**FFB yield:** At SIPEF, the FFB yield dropped from 22.2 tonnes/ha to 19.8 tonnes/ha, while that of the Population dropped from 19.5 tonnes to 18.9 tonnes. The significant drop at SIPEF reflects the young plantations that are gradually reaching maturity but for which the yield is not yet optimal. In addition, there is the important effect of the volcanic eruption in Papua New Guinea that destroyed a large part of the 2019 production. The general decline in Population also shows that global production was underperforming in 2019, due to poor weather conditions in the main production centres. SIPEF does continue to score above the average yield per hectare.

**Extraction rate:** SIPEF's extraction rate is around 23.3%, while that of the Population remains around 22%.

**Oil per hectare:** SIPEF's oil production per hectare dropped from 5.19 tonnes/ha to 4.6 tonnes/ha, while that of the Population dropped from 4.26 tonnes/ha to 4.15 tonnes/ha. The comments for FFB apply here as well.

Given that 2019 was a loss-making year for SIPEF, without dividend payment due to the low palm oil price and the volcanic eruptions in Papua New Guinea, the financial ratios such as dividend yield and P/E ratio are not relevant.

## **9. Carrefour is currently advertising products without palm oil. What is the basis for Carrefour portraying such products as 'bad', and can't you react to this?**

The ongoing Carrefour advertising campaign, with a "no palm oil" reference, has of course also attracted our attention. SIPEF reacted to this, in a joint message with BASP (Belgian Alliance for Sustainable Palm Oil), via a letter addressed to Carrefour Belgium, stating that such campaigns rely on an emotional response from the consumer, based on a misleading simplification of reality, which cannot be substantiated scientifically. There is no economic or ecological argument for replacing palm oil with another vegetable or tropical oil on a large scale. Carrefour also does not indicate what the alternative to palm oil should be, and why it would be sustainable and healthy.

BASP urged them to adjust their 'healthy prices' campaign, to further refrain from using negative claims as a key element in a publicity campaign, and to generally ensure an environment in which such misleading claims disappear.

Enquiries to the RSPO (Round Table on Sustainable Palm Oil) revealed that RSPO has taken action in the past, but is not in a position to stop such 'no palm' claims, as there is no reference to why the producer has removed palm oil from the product.

So far, Carrefour has not found it necessary to react formally to this BASP letter, and further contacts have also been unsuccessful.