



By Ruici Tio,
Director,
Investigations & Disputes

Being a wise investor in Asia's enticing energy sector

Economic growth has fuelled greater energy demands in Southeast Asia and favourable investment climates have led to exciting opportunities for investors in this resource-rich region. Furthermore, as developed countries push to cut carbon emissions and fossil fuel dependency, demand for alternative energy and biofuels may see palm oil production rise. Well-versed investors are aware of the risks in the natural resource sector. However, in Southeast Asia complex political and social contexts require a sophisticated cultural understanding to mitigate the investment risks for outsiders.

Indonesia's forestry sector

Over the last decade, Indonesia has become the largest producer of palm oil in the world, producing some 25 million metric tons annually to meet growing domestic and foreign demand. Millions of hectares of forests have been cleared for palm oil plantations, timber and paper pulp production. Indonesia has set ambitious plans to expand palm oil and biodiesel production further through private and state investments. The World Bank estimates that meeting the target for domestic biofuel consumption alone would require an additional 1.4 million hectares of oil palm plantations. The rapid expansion of this sector is occurring during a time of regulatory uncertainty and is subject to opaque government oversight. In 2011, Indonesia withdrew from the voluntary international palm oil certification system, the Roundtable on Sustainable Palm Oil (RSPO), and implemented its own certification mechanism, the Indonesia Sustainable Palm Oil (ISPO) standard. The uncertainty around this certification and the increasing demand for land has resulted in land rights disputes between plantation companies and local communities due to overlapping claims for land, weak implementation of compensation agreements, and the forcible removal of local populations. Understanding ownership structures is critical to ensure that business partners are not engaging in illicit activities to obtain permits, licenses, and other official authorisations. Without due diligence, an investor may later find it has serious transparency and compliance issues to address. A related problem is that the support of a local official under one government could be lost under a new government, and officials that are critical to upholding permits and licenses may suddenly find themselves out of favour.

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Land rights disputes in Myanmar

This situation is similar in Myanmar, where media and civil society continue to report incidents of 'land-grabbing' in the remote southern coastal and northern border areas that are linked through oil and gas pipelines and rich in natural resources such as copper. In Myanmar, many of the companies operating in this industry are owned by current or former military officers. Land laws passed in recent years provide the government sweeping powers to seize land in the national interest, often to favour military-run businesses

and elites with close ties to the government. Determining ownership structures and the history of business partners is particularly difficult in Myanmar given the lack of formal records and the difficulty of confirming individual identities due to the cultural phenomenon where a very limited number of names are in circulation. The proper identification of land ownership requires in-depth investigation, often with help from well-placed local sources. After identifying ownership structure, the next step is to determine the networks and power structures linked to the individual or company. This is particularly relevant in

Myanmar, as it is challenging to predict how the investment and political climate will change. Ongoing reforms and the upcoming presidential election in 2015 have led to jockeying for power, which could see individuals formerly believed to be credible become unreliable.

Be aware

While investors in the energy sector are aware of the associated risks, the complexity and instability of ownership structures add further uncertainties. A smart investor without a real cultural understanding of how business is conducted in Southeast Asia could meet with serious problems. The energy and natural resource sectors in this region are exciting opportunities for investors, but wise investors must grasp the nuances of ownership structures and assess the possibility of military involvement prior to forging partnerships and investing in the region.

ruici.tio@kroll.com www.kroll.com