HERAKLES EXPOSED:
THE TRUTH BEHIND HERAKLES FARMS
FALSE PROMISES IN CAMEROON

GREENPEACE

The Oakland Institute
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In September 2012, the Oakland Institute published a report in collaboration with Greenpeace International on a 73,000 hectares (ha) palm oil project proposed for development by SG Sustainable Oils Cameroon, Ltd. (SGSOC)/Herakles Farms in the Southwest region of Cameroon. The report, *Massive Deforestation Portrayed as Sustainable Development: the Deceit of Herakles Farms in Cameroon*, described the major flaws of the project and the questionable tactics used by the New York-based company and its CEO, Bruce Wrobel, to make the project look sustainable and beneficial to Cameroon.

Company documents related to the Herakles Farms palm oil project in Cameroon were recently provided to the Oakland Institute. These documents contain evidence that Herakles Farms is misleading investors, local communities, the Cameroonian government, and the general public about the status of its project and operations in the country.

This report exposes the significant discrepancies between how the company has represented the project to the public and what it is telling prospective investors and creditors. It also exposes internal communications that contradict the optimistic outlook for the palm oil project presented to investors.

The Oakland Institute and Greenpeace International are making a number of these documents available to better inform the public and governmental authorities in Cameroon and the US about the Herakles Farms project. Appropriate actions are now required to protect the Cameroonian communities and save a largely intact tropical rainforest region, both of which are directly threatened by the Herakles Farms project.

The following are a series of 9 misstatements, lies, or inaccuracies found in communications from Herakles Farms around their palm oil project in Cameroon.

1. “[HERAKLES FARMS HAS] SECURED ALL REQUIRED GOVERNMENT PERMITS AND APPROVALS TO COMMENCE FIELD OPERATIONS.”

In a March 2013 presentation to its potential investors, Herakles Farms stated: “Herakles has secured a 99 year lease […] and also received all required permits and approvals to commence field operations.”

A senior Herakles Farms official contradicts this claim, stating in an October 2012 internal communication that they do not have the required government approvals for field planting. The situation has not changed since then and Herakles Farms has not secured all required government permits to commence field operations.

The 1976 Cameroonian law governing the allocation of land concessions on state lands requires that a decree be signed by the President and published for any concession above 50 hectares. Part of Herakles Farms’ concession lies within state lands. The Convention signed in 2009 with the government of Cameroon was not signed by the President. To date, no Presidential Decree has been signed or published. The Convention also does not exempt the company from obtaining the necessary permits - including a land lease - before exercising land rights.

Such disparity demonstrates how the status of the project has been misrepresented by Herakles Farms, and calls into question the extent to which the company is legally operating in Cameroon.
2. “WE SURRENDERED THE TIMBER TO THE GOVERNMENT. [...] WE ARE NOT COMMERCIAL LOGGERS”

In an open letter in response to the September 2012 report, Bruce Wrobel, the CEO of Herakles Farms, claimed that any timber sales that resulted from the clearing of land for the project would only be done to benefit the government of Cameroon and not the company.

OPEN LETTER FROM BRUCE WROBEL, SEPTEMBER 2012

the rental rate on our land is only $1/hectare and suggest that at this price we are cheating the government. The rental rate is accurate, but so simply misleading that we are surprised they make a point of it. If we were to pay prices suggested by Oakland, it would be in exchange for the timber on the land, as well. We could have negotiated for the timber rights and paid a higher price. But we surrendered the timber to the government and took a lower lease rate, as we are not commercial loggers. We will cut it, trim it and stack it for the government. This will cost us more than $75 million dollars and will add huge value to the government’s timber income. They will sell it in an auction, which we estimate will generate many millions of dollars of revenue. So please Oakland, give the Government of Cameroon some credit. They were extremely tough, excellent negotiators, and they knew exactly what they were doing.

Herakles Farms is now telling a different story to its investors. Its March 2013 investment opportunity advisory states that the “sale of timber could provide immediate profit uplift” to the company. In its Value Drivers document, Herakles Farms informs investors that the sale of timber may generate between $60 to $90 million during the initial phase of the project, until revenue from palm oil materializes in later phases.

The company claims it has “obtained permission from Ministry of Forestry [sic] to process and sell” merchantable timber. Cameroonian regulations stipulate that the rights to harvest and trade timber found on public lands and felled to develop an agricultural project must be granted through a public auction to accredited commercial logging companies only.

EXCERPT FROM THE HERAKLES FARMS VALUE DRIVERS DOCUMENT, MARCH 2013

HF is in negotiations with the Ministry of Forestry with respect to a potential joint venture to market the commercial value of the wood on the concession. HF believes that this has the potential to generate $1000 to $1500 of additional revenue per hectare during the land clearing process. This is a potential upside of $60 million to $90 million over the next 7 years.
The truth is that Herakles Farms is not licensed to operate either as a commercial logger or as a timber trader in Cameroon, as Bruce Wrobel admitted in his September 2012 open letter—“...[W]e are not commercial loggers.” It is thus very unlikely that Herakles Farms will be able to harvest and commercialize the timber legally in the project area.

Also, Cameroon is currently finalizing implementation of the EU Voluntary Partnership Agreement (VPA) to ensure that all timber for the country’s domestic market, exported to Europe or other markets is fully compliant with the forestry legislation in force. It is not clear how any timber harvested by Herakles Farms would comply with the legal requirements of the VPA.

These misrepresentations and legal obstacles raise questions about the viability of the short-term revenue structure communicated to investors, which would rely heavily on the sale of harvested timber until the planted oil palms have matured.

3. “CORRUPT BUSINESS PRACTICES WILL NEVER BE TOLERATED AT HERAKLES FARMS.”

Herakles Farms insists it is developing the project in compliance with anti-corruption requirements, and has developed a Global Anti-Corruption Policy, which is posted on its website.

However, the Oakland Institute and Greenpeace International have evidence that suggests that Herakles Farms’ employees have used bribery, cash gifts, and promises of employment to win support for its project in Cameroon.

When asked about this issue, a Herakles Farms employee responded: “Of course envelopes were distributed [...] that’s how you facilitate your way.” The employee added that the former Herakles Farms Plantation Director “distributed a good number of envelopes and huge sums of money.”

Information containing similar allegations of corruption involving other Herakles Farms employees, including expatriate staff, has been provided to the Oakland Institute and Greenpeace International.

If confirmed, such allegations would be consistent with a February 2013 report compiled for the Cameroonian Ministry of Forestry and Wildlife and the Programme for Sustainable Management of Natural Resources (PSMNR), which states, “The team has collected during its fact finding mission in 20 villages a lot of information showing the way SGSOC is operating. The negotiation [for land] is done with lot of intimidation and bribery, targeting the chiefs and some few influential decision-making members of the communities.”
4. THIS PALM OIL PROJECT IS AN “INVESTMENT OPPORTUNITY.”

Information obtained in April 2013 indicates the company is facing a dire financial situation. In an email conversation, an employee at Herakles Farms states that the company is now in a cash crunch.

The new information also reveals fears within the company that they need to change their operational methods, particularly when it comes to land clearing, “where the loggers employed have no clue even on the method of felling in the development of an oil palm plantation. They are just a big spenders [sic] with little result.”

The company promotes its pilot project in Ghana as evidence of its experience, and values that plantation at $20 to $25 million dollars in communications to investors.

However it appears they are prepared to sell the Ghana plantation for a much lower figure of $10 to $12 million in order to pay back some of their financers. Investor presentations reveal that Herakles Farms has already spent $40 million on its Cameroon plantation- a large sum considering the company still lacks the necessary permits to develop the project, which at present has only four small oil palm nurseries.

5. “HERAKLES FARMS IS AN EXPERIENCED DEVELOPER, OWNER, AND OPERATOR OF AGRICULTURAL PROJECTS IN AFRICA.”

The company’s claim of expertise in such projects is based on its limited experience with a 2,500 hectare pilot palm oil project in Ghana that has been in operation since 2008.

The reality is that Herakles Farms has repeatedly and variously demonstrated an inability to properly develop a sustainable palm oil project:

Violations of Cameroonian laws

The company has failed to follow national laws and regulations, which has resulted in several court cases against its operations and a 9-month court injunction on the project from August 2011 to April 2012.

Additionally, the Ministry of Forestry and Wildlife took measures in April 2012 to stop illegal logging after observing various infractions and the lack of proper authorization for the forest clearing. Cameroon’s European Union-funded Independent Observer of Forestry Control found that the company had illegally cleared 60 hectares of forest, and the Ministry of Forestry and Wildlife notified SGSOC/Herakles Farms of a fine and damages of approximately $45,000.

Bad business practices

Herakles Farms has failed to meet good business practice standards by starting the development of palm nurseries in 2010--before conducting the required Environmental and Impact Assessment, securing a land lease, or obtaining consent from the impacted communities.

Contrary to claims that the project is welcomed by local communities, Herakles Farms has failed to secure widespread consent and instead faces opposition from a significant number of villages.

Legal dispute with subcontractor

As reported to the Oakland Institute, a subcontractor hired by Herakles Farms in March 2012 for land clearing is involved in a legal dispute in which it accuses the company of bad faith practices.
The subcontractor was allegedly led to believe that as of December 2011 Herakles Farms had the necessary approvals from the Cameroonian authorities to commence land clearing. However, as stated above, the company has not secured all required permits and approvals to commence field operations.

According to information obtained, the subcontractor voiced concerns and sought clarification on the status of approval. It was reported to the Oakland Institute that Herakles Farms terminated the contract in June 2012 and that the subcontractor would now be seeking substantial compensation to recover incurred costs and expenses resulting from mobilization of both machinery and personnel to the site as well as lost profits.

6. “INVESTORS HAVE THE ADDED ASSURANCE OF COMPREHENSIVE POLITICAL RISK COVERAGE SECURED THROUGH ZURICH INSURANCE.”

The Herakles Farms Investment Opportunity advisory states “investors have the added assurance of comprehensive political risk coverage secured through Zurich Insurance.”

Depending on specific policy details, Political Risk Insurance (PRI) protects investors from expropriation, civil war, the cancellation of permits, and other events that could harm a project. A recent report by the Munden Project on financial risk in the agricultural sector explains that PRI is an “enabling guarantee for investments in developing countries,” but warns “most PRI contracts are rendered invalid by coercive practices on the part of the client, or associates acting on its behalf. This is particularly relevant to land tenure disputes. . . .”

Given the evidence suggesting Herakles Farms engages in “intimidation and bribery” and its persistent violations of the law, it is questionable whether its investors would be protected by Zurich Insurance PRI.

7. “THE CAMEROON PLANTATION IS ALREADY WELL ESTABLISHED.”

In its March 2013 Investment Opportunity advisory, Herakles Farms announced plans to clear 10,000 ha of land in order to plant the 1.5 million seedlings from its existing nurseries in 2013. But according to its own staff, the company does not have the capacity to clear this quantity of land. Seedlings are now already overgrown because the company ordered more than it could handle given the limited capacity of its nurseries.

“Already there are 1.5 million seedlings in the pre nursery that is overgrown to an extend [sic] of 9 months. Upon transfer, they look like paddy, being seriously etiolated and had to be pruned to reduce transplanting shock. On the clearing side, there is very little progress.

The foresters engaged on clearing are a confused lot, not knowing what to do. They don’t even know the basics of operating the heavy equipment, but are enjoying life in Limbe, running after girls instead. On top of all this we have another 3 million germinated seedlings arriving next year. This will have a spiralling [sic] detrimental effect on the whole project adding to the current problems in the nursery.”

– Email communication from a senior employee of Herakles Farms, October 2012
Inefficiencies in Herakles Farms’ field operations could also mean that the projection of profits generated by logging may never materialize. According to one company employee, the land clearing team of 3 bulldozers and 3 excavators cleared just 5 hectares in 44 days at a cost of $40,000 per hectare. If the company’s costs remain as high as suggested, no amount of logging revenues would “uplift” the project.

The employee also states that Herakles Farms would need to plant 10,000 hectares of palm trees with the current seedlings, which “is again an almost impossible task.”

8. THE PROJECT WILL BENEFIT FROM “OPTIMAL GROWING CONDITIONS.”

Herakles Farms has presented unrealistic data to investors. The company plans to harvest 24 tons of fruit per hectare 7 years after planting and 34 tons per hectare after 10 years (i.e. at peak production, when the trees have reached their highest level of output).

Yet, in the most intensive conditions of production in Cameroon, the quantities that are produced at peak output are 18 to 19 tons/ha. The Herakles Farms projections are far above the estimates made by the London-based firm Hardman & Co, which establish an average of 14.5 tons of fruit/ha in West Africa.

They also exceed the yield estimates made by Olam in Gabon, with 26 tons/ha in peak years, already a record in Africa. According to an expert in the palm oil industry, projections put forth by Herakles Farms are unrealistic and as of today not a single oil palm plantation company across the globe has been able to achieve this – not even experienced companies involved in new developments in Indonesia, Papua New Guinea, Sarawak (Malaysia), the Philippines, or South / Central America.

Herakles Farms is projecting that its plantations will be between 1.5 times and 2.4 times more productive than other plantations in the country and the region. Unrealistic projections made by Herakles Farms not only spell disappointment for investors seeking high returns, but also frustration for the Cameroonian government and the local communities banking on promised tax returns, infrastructure development, and basic services.

FINANCIAL TABLES PRESENTED TO INVESTORS

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9. THE PROJECT WILL “BRING TREMENDOUS LONG-TERM BENEFITS TO CAMEROON.”

Herakles Farms has focused its public communication on the benefits its project will bring to the people of Cameroon. The company claims that the project is “designed to provide employment and social development and improve the level of food security, while incorporating industry best practices,” and its homepage actually makes no mention of the business goals of the company. Instead, it pretends its goal is to address “the complex issues of food security through sustainable agriculture initiatives.”
In contrast to its public communications, confidential communications to investors boast of the very profitable conditions obtained by Herakles Farms from the government of Cameroon.

The advantageous terms (see box below) secured by the company compared to those provided by Malaysia, a major palm oil producing country,58 raise questions about the benefits to Cameroon and the circumstances under which the government agreed to a deal that is so unfavorable.59

Herakles Farms has marketed its plantation as a development project. One presentation says, “The SGSOC team is committed to developing a long-term sustainable project partnership with the people of Cameroon,”60 But Herakles Farms tells a different story to investors. The company is looking to make huge profits “upon exit through IPO or acquisition […] potentially as soon as 2017.”61

EXCERPT FROM THE HERAKLES FARMS VALUE DRIVERS DOCUMENT, MARCH 201362

LAND: […] The initial lease rate is equal to $0.50 per hectare per year until the parcel is providing commercial quantities of oil at which time the base lease rate will increase to $1.00 per hectare per year.

Land of this quality in Malaysia is estimated to cost between $3000 and $4000 per hectare undeveloped. At equivalent prices HF had begun its operations in 2009 on land with a value of $180 million to $240 million.

HF believes however that the current land in Cameroon has value significantly in excess of the equivalent land in Malaysia! This is due to several key advantages:

TAXES: HF’s is entitled to an exemption from income taxes for the period of ten years from first production of commercial quantities of crude palm oil (“CPO”). In addition it is exempt from other taxes including any duties on imported goods and equipment and the export of CPO. After ten years the income tax rate is held constant at a rate of 15% for the balance of the term of the agreement.

By contrast Malaysia has a tax on income equal to 25% as well as a tax on exports of CPO at a level dependent upon the price of CPO. This results in a 33% increase in the amount of pre-tax income falling to the bottom line in Cameroon versus Malaysia. In addition to the income tax, there are also property taxes assessed on the land in Malaysia.

Based on the impact of taxes alone, HF would place a 30% premium on the value of the land in its concession compared to Malaysia.

Labor Costs: Daily wages for manual labor in Malaysia average 5 to 6 euros per day nearly double the average wage in Cameroon. […] The difference in labor rates amounts to a $50 per ton advantage in Cameroon. Based upon a 6 ton of oil per hectare average this amounts to savings of $300 per hectare per year or approximately $18 million per year to the bottom line during the 25 year producing cycle or $450 million over each planting cycle. […] The massive unemployment in Cameroon suggests that wage pressures will not be experienced for many years.

Based upon just the three issues described above HF believes its land should be valued at a 50% premium to equivalent producing land in Malaysia or $4500 to $6000 per hectare undeveloped.

This would place a value of $270 million to $360 million on the land.

“Throughout my entire life, I have considered myself to be an environmentalist and an activist for the poor.”
–Bruce Wrobel, September 2012.57
In its *Investment Opportunity* advisory, Herakles Farms confirms the very attractive profits to be expected from this investment: 40%+ Internal Rate of Return (IRR) and 10 times returns on cash invested when exiting the project (Multiple of Invested Capital (MOIC)).

**CONCLUSION**

Investors, insurers such as Zurich Insurance, media firms, and anyone considering a relationship with Herakles Farms should carefully weigh the risks of engaging with the company. As the documents that we are making available show the company’s public relations and marketing efforts contain a number of misstatements of the facts surrounding its project in Cameroon.

Investors and other partners would be wise to conduct due diligence on all claims made by the company. Furthermore, the government of Cameroon should carefully consider the information in this report and the results of official investigations prior to granting authorizations for Herakles Farms to commence field operations. Finally, the impacted Cameroonian communities should have access to all such information prior to consenting to the Herakles Farms project.
Endnotes

1 The official name of Herakles Farms is Herakles Farms LLC; the company is registered in Delaware.
5 Internal communication from a Herakles Farms senior employee, October 2012.
6 See Article 7 of Decree No. 76-166 of April 27, 1976 setting out the arrangements for management of land, available at http://faoles.fao.org/docs/pdf/cmr1270.pdf. According to this provision, concessions in excess of 50 ha are granted by Presidential Decree.
7 The Establishment Convention is the main agreement entered into between the Government of Cameroon and SGSOC, the Cameroonian affiliate of Herakles Farms. It defines the terms of SGSOC’s investment in Cameroon. The Establishment Convention is available online at http://www.oaklandinstitute.org/sites/oaklandinstitute.org/files/SGSOC%20Convention%20with%20the%20Government%20of%20Cameroon.pdf
8 Section 5 of the Convention confirms that SGSOC must obtain “all necessary permits, authorizations and land registration certificates required under applicable Law,” although it is entitled to assistance from the government in procuring these documents.
11 Ibid.
13 Ibid.
15 Ibid.
20 Ibid.
21 Communication by Herakles Farms employee, 2012.
24 Communication by informant, March 2013.
25 Communication by a Herakles Farms employee, April 2013.
27 Communication by informant., April 2013.
29 Ibid.
30 Ibid.
32 Refer to the following suits in the High Court of N’dian Judicial Division, Southwest Cameroon: SUIT NO.: HCN/003/OS/2011/1m/2011 of August 31st 2011 and SUIT NO HCN/03/0s/2011 of February 2012 granting the injunction. SUIT NO: HCN/003/OS/2011/4m/2012 of April 2012 ended the period of injunction.
38 Communication by informant, March 2013.
39 Communication by informant, March 2013.
41 Ibid.
43 Ibid, page 18. According to the report, a “Coercive Practice” is defined by the Multi-Lateral Investment Guarantee Agency (MIGA) as “imparing or harming, or threatening to impair or harm, directly or indirectly, anyone or the property of a person to influence improperly the actions of a person. . . Coercive Practices are threatened or actual illegal actions such as personal injury or abduction, damage to property, or injury to legally recognizable interests, in order to obtain an undue advantage or to avoid an obligation.”