

## FOCUS: ROUNDTABLE FOR SUSTAINABLE PALM OIL (RSPO) – Part 2, NGO & downstream perspectives

# RSPO

Roundtable on Sustainable Palm Oil

WWF Critical Regions of the World



### Palm Oil Strategic Analysis

27 October 2010

Issue 003

## Why we need the RSPO

- WWF says we are using 1.5x our planet's ability to replace resources – sustainability is about survival.
- Supportive stakeholders of the RSPO are averse to reputational and market risks.
- Should governments be invited to the RSPO? HCV regional mapping may signal closer cooperation.
- Economic incentives as a possible best solution to sustainability.
- NEWSFLASH: Resolutions proposed for the RSPO General Assembly

## EDITORIAL



The Roundtable for Sustainable Palm Oil's (RSPO) meeting and general assembly starts in less than two weeks. This will take place in Jakarta, capital city of the biggest producer of palm oil in the world – Indonesia (expected to produce 22.3 million MT or 48% of

world output this year). In this issue, we present the views of the other (non-grower) stakeholders. We take a step back from the more heated and contentious concerns. Two months ago, Khor Reports reviewed the status and statistics of the RSPO, some implementation and resource concerns, and the palm oil growers' views.

We put on different hats now. We discuss consumer concerns, looking at the big picture. What are the sustainability issues? The RSPO has achieved the most in the least time. 8% of output in just seven years. Compare this to the organic food movement with 0.7% reach after 40 years. Why and how has the RSPO strategy been so wildly successful (page 3-4)?

What do member (and non-member) stakeholders expect of sustainable palm oil? What are their hopes for the RSPO? Read pages 5-6. Consumer goods firms who are RSPO members are generally committed to full global adoption by 2015. Some from the non-RSPO member segment (80% of global demand), think that other certification standards could be used, so long as they are benchmarked to RSPO at X%. They prefer that extra spending on sustainable palm oil should directly benefit the farmer, and that it should not be 'lost' to supply chain infrastructure and intermediary costs.

Those in processing and trading are most concerned with the relative price of palm oil products to those from competitor oils. They don't mind the cost of sustainable certification, as this is passed on to their clients (the end consumer will end up paying more), but they worry about costly supply chain methods. For example, segregation would involve hefty documentation, more costly and/or poorer utilization of physical infrastructure. Many prefer the book & claim method.

Banks and fund managers from Europe are more leery of the bad press associated with palm oil. The World Bank Group's anticipated confirmation of support for sustainable palm oil is a worry for developmentalists, including those in Africa. While some investors prefer to reduce or limit their exposure, others could step in?

NGOs reckon we only need one single certification system, and that RSPO serves as the sole 'base standard'. They point out that the growers can afford it. Last week, at the Asia Oils & Fats International Conference in Kuala Lumpur, crude palm oil production cost was estimated at RM1,300/mt. Recently, prices were heading toward RM3,000/mt. With this kind of margin (try to find this elsewhere in the supply chain?), there is no problem?

Growers reply that theirs is a cyclical industry: current high margins will not hold up in the long term. Also, management has a duty to maintain margins for shareholders. Growers view the RSPO as a costly and complicated 'gold standard'. Implementation shortfalls leave them open to NGO attacks. A million tonnes have been traded via Green Palm but the premium has fallen to USD3.50 from USD40/mt. This is not a sign of healthy demand, and it makes cost recovery near impossible. The Indonesia Sustainable Palm Oil and the Malaysia Palm Oil Board's 'Codes of Practice' standards are being developed. They may or may not be viable alternatives.

There is multi-polarization in the palm oil supply-chain. The coming RSPO meeting could be a 'biggie'. Resolutions have been released (Page 3). The growers may be gearing up for their second year of activism - including an attempt to mitigate their structural "high-pay low-say" situation. HCV could be topical, with a resolution on non-primary forests (page 6 discusses HCV mapping). As usual, we could not resist throwing in some analysis of issues and ideas for improved sustainability (Page 7). We talk about how to achieve this in our exclusive interview with Dr. James Fry (Page 8).

Many thanks to readers who gave feedback on options that we mooted on how to 'make the RSPO more sustainable'. Not all of our options were practical or palatable, but we only sought to open up the debate. Option B (for a fairer sharing of certification costs) was the more favoured. This is not a statistically significant survey result, and the respondents were mainly from the financial, consultant and NGO sectors. I also enclose a letter from a reader who has put in considerable efforts on smallholder certification (Page 9). Please keep your feedback and suggestions rolling in!

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**EXCERPTS – WWF SAYS**

**RSPO – the WWF’s most successful program?**

**The thinking behind WWF’s roundtables (6 key points)**

**#1 Consumer education: It is about lifestyles,**

e.g. the average cat in Europe has a larger lifetime environmental footprint than the average African.

**#2 Mission: We need to use less to make more,** and then we need to use less again. And then we need to consume less.

**#3 Goal: All products must be sustainable**

**WWF is the stakeholder founder and prime promoter of the RSPO. Khor Reports is most impressed by the thinking behind the RSPO. This entire section comprises excerpts and summaries of a talk given by Jason Clay, WWF vice-president, to TED at Oxford, in July 2010 (updated with more recently published WWF data). Clay works with large corporations “to transform the global markets they operate in, so we can produce more with less land, less water and less pollution.”**

**Living unsustainably at 1.5x planets**

*WWF work shows that we crossed the line of being in a sustainable relationship to the planet in 1990. This is akin to farmers eating their seed. Western lifestyles are plundering the Tropics at a record rate. The WWF’s Living Planet 2010 report shows that the planet’s resources are being used at 1.5 times the rate nature can replace them. In the last 40 years human consumption has doubled, while the Living Planet Index has declined by 30% overall, and by 60% in the Tropics. Animal populations have risen significantly in the richer parts of the temperate zones. Globally, they appear to have stabilized.*

**Blame Western-style consumption?**

*Many like to put the blame on population growth. But it’s also about how much each person consumes: the richest countries consume, five times the quantity of natural resources as the poorest countries; the average American consumes 43x as much as*

*the average African. In 2000, we had six billion people on the planet. By 2050, we’re going to have nine billion people, and they will consume twice as much. Scientists agree on these forecasts. In developing countries, income is going to grow by five times. We are going to have 18 billion units of consumption. We have to triple production of goods and services. But we’re not going to be able to do that. We can get productivity and efficiency up but we also have to cut consumption.*

**Make it 100% sustainable**

*Should consumers have a choice about sustainability or should all the products on the shelf be sustainable? How do you evaluate all the scientific data around a product? How do you get informed? You don’t. Sustainability has got to be a pre-competitive issue. It’s got to be something we all care about. We need groups to work together that never have: Cargill with Bunge, Coke with Pepsi, Greenpeace with WWF, and China and the US. We need to begin to manage this planet as if our life depended on it, because it does, it fundamentally does.*

**NEWSFLASH: Resolutions for the RSPO General Assembly, so far .....**

- (a) Appointment of Auditors.
- (b) To require twenty-eight (28) days notice for submission of members’ General Assembly resolutions.
- (c) To reduce the requirements for a quorum in the RSPO’s statutes & by- laws to thirty five (35) per cent of the Ordinary membership.
- (d) Preserving Integrity of the Standard.
- (e) Ensuring Balance between Producer & Non-Producer Stakeholders.
- (f) Postponement of the Implementation and Review of New Planting Procedure (NPP).
- (g) Market Support for Sustainable Palm Oil Production.
- (h) High Conservation Values in Non-Primary Forests.

Note: **The General Assembly (GA) of the RSPO is on 11 November 2010. Members can submit and withdraw resolutions up to 24 hours before the GA.**

Source: “Notice of the 7th General Assembly of the Roundtable on Sustainable Palm Oil, Last Updated 21 October 2010 - 4:58pm,” RSPO (2010)

**..... what’s “hot”?**

From our chats with some insiders, we expect resolutions (e) and (f) to have the potential to polarize RSPO members i.e. growers vs. non-growers. Resolution (e), on more grower representation, is likely the more contentious. If the growers do not build enough support, could they stage a walk out? How will members alter their resolutions? Positive minds hope that ‘common sense’ will prevail.

<p><b>#4 Strategy:</b>  <b>Convince just 100 key companies</b> to go sustainable, and global markets will shift to protect the planet our consumption has already outgrown.</p> <p><b>#5 Assumption:</b>  <b>Companies can push producers faster than consumers can</b></p> <p><b>#6 Action plan:</b>  <b>WWF's roundtables are getting big brand rivals to agree</b>, on green practices first -- before their products duke it out on store shelves.</p>	<p><b>35 places &amp; 15 commodities</b>  <i>We've got to be strategic: to focus on the where, the what and the whom. WWF has identified 35 places globally that we need to work. These are the 15 commodities that fundamentally pose the biggest threats to these places because of deforestation, soil loss, water use, pesticide use, over-fishing, etc.</i></p> <p><b>Tackle 100 key companies</b>  <i>Who do we work with to change the way those commodities are produced? Work with 6.9 billion consumers, 7,000 languages and 350 major languages? Work with 1.5 billion producers? Daunting tasks. 300 to 500 companies control 70% or more of the trade of each of the 15 commodities. By changing those companies and the way they do business, the rest will happen automatically. The better way is to reach the 100 companies that will control 25% of the trade. If these companies demand sustainable products, they'll pull 40-50 % of production. Companies can push producers faster than consumers can.</i></p> <p><i>It is more effective to work with industries, so the WWF started roundtables, where we bring together the entire value chain, from producers, all the way to the retailers and brands. We bring in civil society, we bring in NGOs, we bring in researchers and scientists to have an informed discussion -- sometimes a battle royale -- to figure out what are the key impacts of these products, what is a global benchmark, what's an acceptable impact, and design standards around that.</i></p> <p><b>Risk &amp; demand</b>  <i>So what brings the different entities to the table? For the big companies, it's reputational</i></p>	<p><i>risk. For the producers, if a buyer wants to buy something produced a certain way, that's what brings them to the table. So it's the demand that brings them to the table. So we're pulling out all the stops. We're using whatever leverage we have to bring them to the table.</i></p> <p><b>Palm oil – Cargill, Wilmar &amp; China</b>  <i>One company we're working with that's begun -- in baby steps, perhaps -- but has begun this journey on sustainability is Cargill. They've funded research that shows that we can double global palm oil production without cutting a single tree in the next 20 years and do it all in Borneo alone by planting on land that's already degraded. The study shows that the highest net present value for palm oil is on land that's been degraded. They're also undertaking a study to look at all of their supplies of palm oil to see if they could be certified and what they would need to change in order to become third-party certified under a credible certification program.</i></p> <p><i>Why is Cargill important? Because Cargill has 20-25% of global palm oil. If Cargill makes a decision, the entire palm oil industry moves, or at least 40-50% of it. More importantly, Cargill and one other company ships 50% of the palm oil that goes to China. We don't have to change the way a single Chinese company works if we get Cargill to only send sustainable palm oil to China.</i></p> <p><i>Excerpts from: WWF (2010a), WWF et al. (2010b)</i></p>
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The headlines...



**Planet's resources used at 1.5x**

the rate nature can replace them. Western consumer lifestyles are plundering the Tropics at a record rate.

**100 companies control 25%**

of the trade of all 15 of the most significant commodities on the planet. Cargill & Wilmar control 50% of palm oil shipped into China.

**WWF priority places**

for palm oil: Heart of Borneo, Sumatra, New Guinea & Offshore Islands, Choco Darien, Coral Triangle. Expansion threats: Amazon, Green Heart of Africa.



## BACKGROUND

# Other stakeholders – news & views

## Who aligns with whom on sustainability?

### All together?

- **Environmental & social NGOs** - mission to save the planet & promote social justice.
- **Banks & investors**<sup>^</sup> – reputation risk; WWF is a great CSR partner.
- **Retailers**<sup>^</sup> - good customer relations requires green 'creds' nowadays.
- **Consumer goods manufacturers**<sup>^</sup> - reputational & consumer bottom line risks; Greenpeace took on Nestlé's Kit Kat and the rest is history.
- **Palm oil processors & traders** – clients may want it; it doesn't cost them an arm & a leg to be green (cost pass-through).

### <sup>^</sup>European companies are leading the way

- but demand for sustainable palm oil from the rest of the world lags. What will China & India demand?

### Retailers & consumer goods manufacturers

Palm oil industry insiders point to the retailers as key decision-maker. They decide what sits on their shelves. Top European retailers have been asking manufacturers to switch to sustainable palm oil, as NGO campaigns have had their impact in shifting consumer demand, starting in Europe.

The choices made by product manufacturers are also driving demand for sustainable ingredients. About two years ago, some considered switching entirely away from palm oil. However, after discussion with ingredient suppliers, practicalities prevented this move. One supplier interviewed by Khor Reports said that he is now seeing a handful of clients asking for sustainable palm oil (the biggest food manufacturers). He expects this demand to grow.

The manufacturers who are members of the RSPO represent 20% of global demand. Some large European multi-nationals (MNCs) have now committed to 100% usage by 2015. We spoke to some who are not in the RSPO fold. Some thought that Indonesia's two-year moratorium on deforestation could offer a good respite. Manufacturers are used to handling multiple sustainability standards across various agriculture inputs – some say that another certification for palm oil might be good, so long as it is benchmarked to the RSPO standards. They also prefer that premiums should be earned by farmers and not taken up by a more costly supply chain.

Other high-yielding oils are being examined. Unilever, is reported to be spending on R&D for algal oils as a future (greener) alternative. "... it was recently approved as a food ingredient in the EU... Unilever has invested in exploring algal oil specifically as a replacement for the palm oil in Dove soap and other products (lotions).... (it) has already spent months testing... but says it's still three to seven years from rolling out..."

Sources: Khor Reports interviews, Daily Finance (2010)

### Processing & trading

Companies in this segment deliver what their clients want. As they see increasing request for sustainable products, they will become certified to supply them. The cost of certificates is a pass-through to their clients (who will cost this into their retail prices). Processors are more concerned about the relative price of various oils and their products. The premium for sustainable palm oil is very slight and does not affect its price competitiveness (no sustainable products available for other oils?). Many processors eschew costly supply chains e.g. segregation is document-heavy, less efficient, lowers capacity utilization, and/or requires more infrastructures. Book and claim, via Green Palm certificates is relatively popular. For the highly vertically integrated grower-processors, this would be less of concern.

Source: Khor Reports interviews

### Financial institutions

The heated debate over environmental considerations is forcing lenders to look at where they extend credit, and to whom. Likewise, investors are deciding how they ought to invest. Analysts like Ms. Leow of UOB Kay Hian have found that up to half of European fund managers (especially pension funds) avoid SE Asian plantations. For banks, the New York Times says that "... after years of legal entanglements arising from environmental messes and increased scrutiny of banks that finance the dirtiest industries, several large commercial lenders are taking a stand on industry practices that they regard as risky to their reputations and bottom lines.... HSBC has curtailed its relationships with some producers of palm oil, which is often linked to deforestation in developing countries... in some cases, the changing policies represent an attempt to burnish green credentials in areas where the banks had little interest, and there is no indication that companies engaged in the objectionable practices cannot find financing elsewhere..."

Sources: Khor Reports interviews, NY Times (2010)

## BACKGROUND

### Are growers of two minds?

- **large-integrated growers** – market risk due to vertical integration and/or Europe exposure.
- **the others** – other corporate growers, smallholder farmers plus independent millers.

**NGOs** – are the prime movers in the sustainability movement. They are trusted by the public.

**HCV** – is of key concern. Site-level HCV assessments will determine how projects should be implemented. Regional mapping of HCVs will indicate the broad geographies that are vulnerable. Recent mapping efforts in Indonesia:

- *W Kalimantan* by Fauna and Flora Intl
- *E Kalimantan* by Ministry of Forestry & The Nature Conservancy
- *Sumatra* by Ministry of Environment with WWF Indonesia

### NGOs are highly trusted by consumers

Surveys in developed countries typically show that NGOs are the most trusted (not corporations, and not governments). NGOs have a key role in 'educating' and influencing consumers. NGOs are typically funded by private foundations and governments, with donations from members of the public being the smaller part of their budgets. A new and growing source of revenue is the provision of services including consulting.

### Environmental NGOs

WWF is the key NGO behind the RSPO. It is a global organization whose total expenses were USD220 million in FY2009, 82% of which was directed to worldwide conservation activities. Other NGOs, like Greenpeace, say that despite the efforts of the RSPO, forest destruction continues. Several plantation companies have been targeted for boycotts, for poorly implementing their RSPO commitments. Recently, Australian zoos initiated a "Don't Palm Us Off" campaign: saying oil palm plantings in Malaysia and Indonesia caused forest destruction of 300 soccer field equivalents per hour and loss of over 1,000 orangutans a year. Visitors were asked to petition to the Food Standards of Australia and New Zealand to label palm oil on all food products. This would enable consumers to choose whether to buy these products or not. Product labeling will hamper producers' future ability to swap inputs as changing labels is costly.

Sources: *Khor Reports interviews, WWF (2010c)*  
*Malaysia Business Times (2010).*

### Social NGOs

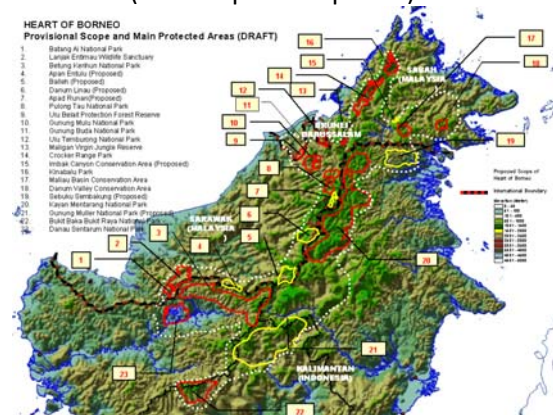
Recent positive surprises for local communities, include the 'loss' of a Sarawak estate by IOI Corp. Dr. Nesadurai of Monash University comments that "(this) experience shows that indigenous communities are prepared to litigate.... Oil palm plantations will do well to address these conflicts ... such as in the ways outlined in the RSPO. If plantation companies continue to rely on the state

government to assure them their right to cultivate the land as in the past, the companies may find themselves not only entangled in legal suits but also more likely to lose whatever land they had cultivated since the Sarawak courts are increasingly ruling in favour of indigenous communities. Relying on appeals is not the answer as the outcomes are uncertain." This is likely instructive for other palm oil regions.

Sources: *Khor Reports interviews, Khor Reports (2010).*

### HOT TOPIC: HCV mapping

RSPO has HCV criteria for planted areas and new plantings. At the site level, growers conduct HCV studies and bear the costs. NGOs are now pushing for the implementation of regional HCV mapping; a move that requires the participation of local governments in land-use planning. If implemented properly, these governments would preserve HCV areas and not issue them as plantation concessions. Could this reduce the longer lead-time and cost of HCV consultants for new plantings? Could this address the conflicts and cost uncertainty for the RSPO growers? There have been perverse results where a RSPO member sets aside HCV land, to have the same land taken back and given to other non-RSPO growers for planting. **Bottom line:** regional HCV mapping is a good thing, but who will pay for it? What will be the 'politics' of this process? This could be an entry point for governments into the RSPO (Khor Reports hopes so).



WWF's Heart of Borneo project: By creating a network of protected areas and leveraging the support of businesses, WWF's aim is that Borneo's natural treasures are sustainably used, well into the future. Sources: *Khor Reports interviews, HCV Resource Network (2010), WWF (2010e, 2010f)*

## STRATEGIC ANALYSIS & OPTIONS

### Other issues & ideas on sustainability

#### What else can improve sustainability?

- Make governments a stakeholder
- Reduce Western-style consumption?
- Change the model from 'pressure - threat' to 'pay-for-it'
- Raise yields
- Sharing of certification cost\*
- Multiple certifications\*
- Tiered certification\*
- Improve demand for sustainable palm oil\*

\*Discussed in Khor Reports #2, 26 Aug 2010

#### Governments – the missing stakeholder?

- Planting palm oil serves the consumption demand of an expanding world population with improving lifestyles. It is a big irritant to the environmentalists, but growing palm oil is legal and lucrative. There is a gap between RSPO voluntary standards and governments' rules and regulations. Growers are facing conflicts and uncertainty because of this mismatch. However, regional HCV mapping efforts could draw in governments.
- "The reality of politics is government will only move a certain amount of the way, depending on how much they think consumers and businesses are behind them," said the WWF to The Guardian. "Although government regulation was the "ideal" way to achieve this, consumers and businesses also needed to insist on such standards."
- Has the RSPO reached a cross-road? Is it time that the authorities are directly involved?

Sources: Khor Reports Interviews, Guardian (2010)

**Over-high Western-style consumption?** - WWF points out that consumption of 1 American equals that of 43 Africans. Will WWF soon target lower usage in the 'over-consuming' countries?



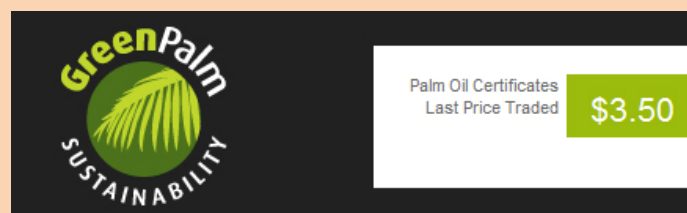
Source: WWF(2010a)

#### Is the RSPO's model an effective way to achieve sustainability?

It is not enough. Dr. James Fry says that farmers will still find planting oil palm a good option. You have to make it more rewarding for them to conserve than to plant. Real money has to be spent. Please turn to Page 8 for our interview with this eminent agribusiness economist and consultant. In this regard, Khor Reports is keen to see how Indonesia and Brazil's proposed REDD+ projects with Norway pan out – as a test of the alternative 'pay-for-it' model.

Source: Khor Reports interview with Dr. James Fry

**Greenpalm's plummeting price** - poor market demand for sustainable palm oil. The price has fallen from USD40 to USD3.50/mt. This is probably the most important market indicator of the RSPO's efforts.



Source: Greenpalm (2010), accessed 24 October 2010

### Gaps and new approaches...



#### State rules vs. RSPO standards...

This gap has led to some inadvertent and even perverse results e.g. accelerated planting by non-RSPO members?

#### Indonesia & Brazil tap on Norway fund

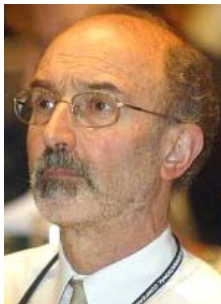
2-yr moratorium on deforestation, for up to USD 1 billion each, based on outcomes.

#### How will the \$\$\$ get to the farmer?

Farmers have to earn more for conservation work than from planting palm oil.....is it possible?

## A KHOR REPORTS EXCLUSIVE INTERVIEW

### Dr. James Fry



Dr Fry is Chairman of LMC International Ltd, a leading independent economic and business consultancy for the global agribusiness sector; from crops and agricultural commodities to agro-industrial products and downstream end-uses.

Khor Reports met up with Dr. Fry at the recently concluded Oil and Fats International Asia conference in Kuala Lumpur, Malaysia.

#### How should we develop the sustainable palm oil market?

*In reality, as is revealed by the recent very low prices paid for RSPO certificates on the Greenpalm website, it cannot be assumed that the market will ensure that environmental objectives are met by paying a high premium for such certificates or, in effect, by imposing a large discount on CPO without RSPO certification.*

*The protection of HCV forests has to be paid for directly with real money, so that the farmers (of oil palm) and people living in the forest areas are given a commensurate alternative income in conservation that gives them a major economic stake in preserving the HCV areas.*

*The 'pressure-threat' approach of the RSPO on its own (in contrast with the more costly alternative of direct payments by concerned governments and consumers as a reward for success in forest conservation) is unlikely to attain sustainability on the scale that is needed. This is because the economic incentive would still remain for farmers to clear forests and grow crops such as oil palm.*

*In this context, it will be very interesting to see the effectiveness of Norway's USD1 billion payment to Indonesia for a two-year moratorium (2011-2012) on the development of oil palm estates on HCV areas.*

#### What do you think of bio-fuel mandates?

*Bio-fuel mandates are undesirable, since they mandate a demand for bio-fuel crops and push up food prices, without any regard to the benefits of individual bio-fuels in GHG reductions and the social costs and the regressive impact of higher food prices.*

*Surely it is much better to encourage bio-fuels via tax incentives, since these imply that there is a very clear upper limit to the subsidies that Governments and consumers pay for the perceived benefits of bio-fuels. How many other commodities have a demand that is fixed in a manner that has no relationship whatsoever to their prices?*

#### Dr. Fry on CPO prices:

Dr. Fry singled out China's lifting of the soybean oil imports from Argentina to be one of the reasons why CPO's recent rapid price climb could reverse by year end.

The Edge reported the following excerpts in an article dated 21<sup>st</sup> October 2010, titled "James Fry sticks to bearish view on CPO":

- "While analysts and traders have been generally bullish on CPO, with some expecting the edible oil to rally to RM3,400 per tonne in the first quarter of next year, Fry says it is more likely to be around RM2,500 per tonne come the end of the year as he thinks that this level "best reflects" the demand and supply of the tropical oil."
- "China reportedly bought at least 70,000 tonnes of Argentine soybean oil after Beijing lifted the ban. Recent reports also predict that Argentina will export a further 80,000 tonnes of soybean oil to China in November and 100,000 tonnes in December."
- The Edge quotes Fry, "I don't think exchange rates will cause problems and I don't see why CPO prices should rise. Palm oil is due to have pretty good production growth in the next few months year-on-year."



## LETTER TO THE EDITOR

Dear Editor, Khor Reports

### Certification: a curse or blessing for oil palm small holders?

I am a general manager of a small palm oil related start-up in Africa and Germany. In 2007, with the combination of secure "off-take" through energy policies in the EU as well as the call for sustainability, our company saw an excellent opportunity for palm oil cultivation by small holders in Africa to bloom. Why? Because many small holders actually use mixed cropping systems, often rotated with unused plots where "nature" has left some "free space". This is "bio-diversity" cultivation in practice. The down-side of this small holders farming has always been relatively low productivity. However this can be overcome with the investment security offered by EU policies together with the application of modern and organic farming methodologies. Our practical experience in a pilot with a cooperative in Ghana is that this is a realistic option. Anyone who steps out of a car and walk some hundred meters into one of the many small plots in Ghana can observe this theory is in fact put to practical reality. The observation when stepping out of a car into a major plantation in SE-Asia is quite different!

Still, in practice the small holder approach to palm oil cultivation is losing out commercially. Why? There are many reasons, but an important one is the complex sustainability certification system, which actually makes it expensive and very difficult for small farmers, who are often poorly educated, and cannot understand all the requirements to comply. At the same time their farming may be more sustainable than "Greenfield" mono-culture industrial plantations. RSPO is nevertheless the most suitable certification systems for this type of farming, because it makes a serious effort to include independent small holders. However it still is, with 8 principles and 39 criteria, a daunting challenge for small holders, as the recent RSPO NIWG work in Ghana revealed yet again. In addition it lacks the possibility to address the interesting "Energy off-take" markets, because an optional method to certify the reduction of green house gas (GHG) emissions is lacking. Alternative certification system, which include the GHG methodology, like RedCert

and ISCC, have less market recognition and are even more complex. ISCC for example has 66 major and 41 minor must control points.

So, how can we include the small holders and improve their productivity while strengthening mixed crop farming in a more bio-diverse type of agriculture? A RSPO workgroup with IFC participation will present a report at the 8<sup>th</sup> RT in Jakarta. Pending the outcome of that workgroup our company proposes to introduce a levy system that increases the costs of certification per metric ton of palm oil from large industrial "mono-culture" plantations while capping the costs for small holders at 10 USD/mt. It shall be emphasized, that based on current offers from certifiers, a small holder cooperative with 50 members, some 250 hectares producing 100 to 1.000 mt/yr, faces direct certifier costs of 20 to 200 USD/mt. How such a cap at 10 USD/mt for small holders works out for larger producers can be seen in the table below. The increase in direct to the certification related costs per metric ton is in general moderate and would at the same time provide the industry with a positive story about palm oil supporting both small holder livelihoods and a more bio-diverse agriculture. We do also propose that RSPO offices (as "pool agencies") centralize competitive bidding between certifiers for both large and small palm oil producers. Till now the biggest beneficiaries of certification systems have been advisors and certifiers, who often are based in developed industrial countries. They can digest some price pressure, certainly when it helps to include small holders and so to support real poverty reduction at the country side of many tropical countries!

However when nothing changes, the certification systems will (and have already!) de facto create an entry-barrier to market for small holders, not only from Africa, but also from Asia and Europe. Smaller rapeseed growers and millers in the EU do also struggle with the administrative burden for the certification of smaller volumes. Therefore the below table could also be a model for developed countries like Germany.

Reynier Funke, [www.qew-africa.com](http://www.qew-africa.com)

Producer / (Processor can be qualified in similar way by processing facility) Type	Annual volume range (mt/yr)	average volume of group (mt/yr)	# of members in "RSPO certification pool"	Annual Oil production of Group (mt/yr)	Pool contribution USD/mt	Total contribution of Group (USD/yr)	Typical direct Certification Costs of single certification for a Group member (USD/yr)	Typical " non-cross funded" direct certification expenses for whole group (USD/yr)	From pool resulting under/over contribution (USD/yr)	Group (over/ under pay) / mt
Small holders - organized group	100-1.000	550	500	275.000	10,00	2.750.000	20.000	10.000.000	-7.250.000	-26,36
Private small plantation & medium groups	1.000-2.500	1.750	100	175.000	10,00	1.750.000	25.000	2.500.000	-750.000	-4,29
Medium size private plantations & large groups	2.500-5.000	4.000	20	80.000	10,00	800.000	50.000	1.000.000	-200.000	-2,50
Large size private plantations & large cooperatives	5.000-10.000	7.500	20	150.000	12,00	1.800.000	75.000	1.500.000	300.000	2,00
small corporate & govt. Plantations	10.000-20.000	15.000	10	150.000	14,00	2.100.000	100.000	1.000.000	1.100.000	7,33
Large corporate & govt. Plantations	> 20.000	50.000	10	500.000	17,00	8.500.000	125.000	1.250.000	7.250.000	14,50
				<b>1.330.000</b>		<b>17.700.000</b>				
Net result, used to fund "pool" agency:									450.000	

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