

# PALM OIL AND BIOFUELS

Surveying the Sustainability Landscape  
in Europe, China and India

Report

May 2019

# Executive Summary

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The production of palm oil in Indonesia and Malaysia has often evoked mixed reactions. While it offers a significant source of employment, much attention has also been given to its environmental and social controversies. Efforts to promote sustainable methods of production abound, alongside calls for higher demand and sustainable consumption.

The momentum to advance sustainable production has now come under threat. As the largest buyer of certified sustainable palm oil, the European Commission recently concluded that palm oil cultivation is responsible for excessive deforestation. As a result, palm oil will no longer qualify to be considered towards the European Union (EU) renewable transport targets for national governments – a major setback for the industry since nearly half (48 percent) of all EU's palm oil imports in 2016 were used for biofuels.

This is significant for three reasons. **First, the EU's moves send a negative signal to other consumer markets regarding the use of palm oil.** This could shift demand to other vegetable oils, which are less efficient and require more land to cultivate.

**Second, the EU's actions could be interpreted as discrediting existing sustainability efforts by palm oil producing countries as well as disincentivising further progress.** Sustainability efforts come with a cost which Europe has historically rewarded by paying a premium. With the lack of premiums, some fear this will stifle the momentum for large plantation companies and smallholders alike to strive for higher sustainability standards.

**Third, as producers shift their attention from Europe to China and India, there are concerns that the palm oil supplied may not be produced to the highest sustainability standards.** These major consumer markets remain in the early stages in their understanding of sustainability. With consumers paying more attention to price, producers may be prompted to downplay sustainability efforts in order to stay competitive.

The EU's moves may unfairly undermine an industry that is important to Indonesia and Malaysia in terms of export earnings, and the livelihoods of millions of smallholders. The EU directive may also be questionable in terms of its conformity with trade rules, and, in a world beset with trade tensions, stands as another impediment to trade – not only for the two palm oil producing countries, but between ASEAN and the EU as a whole. Yet, the directive may not substantially progress efforts to address sustainability in the sector.

Despite China and India's influence, few studies have closely examined the current status of the demand for sustainable palm oil in these countries. Establishing the baseline is critical for governments to understand the gaps and develop suitable incentives that promote higher uptake of sustainable palm oil. Moreover, companies may be able to uncover potential business opportunities through pursuing sustainability as the current and emerging generations of consumers become more environmentally- and socially-conscious in their purchases.

This Report offers an examination of the landscape in major consumer markets - namely, Europe, China and India - in terms of their demand for sustainable palm oil and their major challenges. It draws on existing literature about palm oil and biofuels, as well as 52 interviews with a broad range of stakeholders including government officials, plantation companies, NGOs, financial institutions from China, Europe, India, Indonesia, Malaysia, and Singapore conducted between July 2018 and February 2019.

It also incorporates key outcomes from a workshop, "Creating Demand and Supply Interventions for Greening Palm Oil Supply Chains", jointly organised in Jakarta by the Singapore Institute of International Affairs (SIIA) and World Resources Institute Indonesia.

The Report begins by considering why defining sustainable palm oil is crucial yet challenging in practice. This is followed by an overview of key milestones and efforts by various stakeholders to achieve palm oil sustainability among the producing countries. The next section examines the baseline for the demand for sustainable palm oil in major consumer markets, before concluding with suggestions for next steps.

# Defining sustainable palm oil in practice: Varying interpretations of sustainability

Ensuring the sustainability of the palm oil industry is often perceived as the responsibility of actors in the upstream supply chain, including small-scale farmers and large plantation companies. As these players seek to comply with ever rising standards of sustainability, some who are more progressive continue to face criticisms for not doing more. The industry is witnessing a shift as the responsibility of downstream companies, retailers and consumers is increasingly being called into question.

The European Union (EU) Indirect Land-Use Change (ILUC) criteria under the revised Renewable Energy Directive (RED II) has been at the centre of the debate around excluding palm oil – that currently goes towards biofuels – from being counted for Member States' renewable targets unless it satisfies “low risk” requirements and/or is in an exempt category, e.g., small and independent smallholders.<sup>1</sup> While it is critical for producing countries to clean up their supply chain, the controversy around ILUC highlights how important it is for major consumer markets to develop a common understanding with producing countries regarding what sustainability entails in practice, and avoid a case of shifting goalposts.

## 1.1 Certification schemes

The lack of a common understanding is evident in the existence of various palm oil certification schemes, which stem from diverse interests and expectations of sustainability. Moreover, there is a disparity between the palm oil certifications adopted by producing countries and those which are recognised by the consumer markets.

Among the producing countries, the most common certification standards adopted are the voluntary schemes, the Roundtable on Sustainable Palm Oil (RSPO) for non-energy uses and International Sustainability & Carbon Certification (ISCC) for energy uses and national-level mandatory schemes – more specifically, the Malaysian Sustainable Palm Oil (MSPO) standard and the Indonesian Sustainable Palm Oil (ISPO) standard.

The ISCC is guided by EU regulations and its multi-feedstock approach makes it dominant. The RSPO Principles and Criteria (P&C) were formulated through consultations and dialogues between key stakeholder groups in the palm oil supply chain<sup>2</sup> and therefore reflect the industry's position towards sustainability.

On the other hand, MSPO and ISPO were developed based on the respective national laws and regulations.<sup>3</sup> This has the benefit of promoting greater inclusion especially for smallholders and helps to align the industry towards common standards. More recently, the RSPO has also introduced a new and separate standard for independent smallholders, aimed at reducing the “unnecessary burdens” they face when obtaining the certification.<sup>4</sup>

On the other hand, the major consumer markets recognise different certification schemes or standards.

India, the largest consumer as well as the biggest importer of palm oil worldwide, launched the Indian Palm Oil Sustainability Framework in 2017.<sup>5</sup> The framework harmonises existing national and international legislations and regulatory mechanisms and outlines the Principles, Criteria and Indicators, although it does not explicitly support any particular standard.

As the second largest importer and third largest consumer of palm oil, China has demonstrated evident support for the RSPO through the China Sustainable Palm Oil Alliance in 2018. The alliance was a joint effort by the RSPO, the China Chamber of Commerce of Foodstuffs and Native Produce (CFNA) and World Wildlife Fund (WWF) to “create a platform for win-win cooperation among the stakeholders in the palm oil supply chain and promote sustainable palm oil in China”.<sup>6</sup> China has rolled out its own food safety and traceability system internationally, CCIC-China Certification & Inspection Group, but it has yet to touch on bulk vegetable oils.

Within Europe, several initiatives and industry alliances exist but not all of them recognise the RSPO as the only standard of certification; for instance, the Forum for Sustainable Palm Oil (FONAP) – which caters to the German, Austrian and Swiss markets – recognises four certification systems, namely RSPO, International Sustainability and Carbon Certification (ISCC) Plus, Rainforest Alliance and Roundtable for Sustainable Biofuels (RSB).<sup>7</sup> While these schemes are acceptable, FONAP also works to refine and improve them, adding to the requirements producers have to observe, in order to enjoy access to these markets.

Apart from certification, interpretation of key concepts and implication of legal definitions may vary across markets. For instance, in terms of “no deforestation”, Europe generally equates plantations with agriculture whereas Malaysia considers plantations to be part of forest. Indonesia classifies palm oil as a non-forest crop, thus it is illegal to grow them on forest estate. This shows that simple differences in legal definitions and interpretation makes it even more difficult to arrive at a common understanding across the producer and consumer markets.

## 1.2 Costs of implementation

In practice, the certification standard chosen has implications for the costs involved in implementation, and this in turn, influences stakeholders' support for sustainability.

Clearly, undertaking more sustainable business practices comes with a cost. The debate, then, revolves around who should bear the costs.

On one hand, some believe that consumers – who demand higher sustainability standards – ought to bear this cost by paying a higher price for certified sustainable products in the market.

However, this is far from reality when major consumer markets outside of Europe such as China and India continue to place a low value on certified sustainable palm oil, according to industry experts. This has been attributed to the price sensitivity of consumers and their general lack of awareness of sustainable palm oil.

Others believe that producers should bear the costs of certification so as to enjoy wider market access. Yet, costs are a major barrier for smallholders and some of them maintain that the government should bear the costs associated with ISPO and MSPO as these are government-led initiatives.

Therefore, to secure buy-in from these smallholders and ensure recognition from the major consumer markets, governments of palm oil producing countries may end up absorbing part of the costs of certification, especially for their domestic smallholders.

For instance, India welcomes the import of MSPO palm oil as long as no added cost is involved. The Malaysian government has been observed not to have declared any premium price for MSPO palm oil and instead covers 100 percent of the auditing fee for MSPO certification.

At the same time, both Indonesia and Malaysia recognise the importance of continuous improvement in their sustainability standards and practices. The next section provides an overview of the key milestones by different stakeholders regarding achieving palm oil sustainability among producing countries.

## Milestones on achieving palm oil sustainability among producing countries

Progress on environmental and social issues has been observed due to various initiatives and measures taken by governments, industry and non-governmental organisations in two of the world's biggest palm oil producing countries, Indonesia and Malaysia, to improve the sustainability of palm oil production. The following is an overview of some key milestones.

### INDONESIA



The Peatland Restoration Agency (BRG) was tasked to restore 2.4 million hectares of peatland by 2020 in seven provinces with the most severely degraded lands.<sup>8</sup>



In September 2018, President Joko Widodo signed a moratorium on new licenses for oil palm plantations. It is applicable to new requests for licenses and projects that have obtained some of the permits required to commence operating.<sup>9</sup>



The Indonesian Sustainable Palm Oil (ISPO) was launched in March 2011.<sup>10</sup> So far, less than 2 million out of about 11 million hectares of forests in Indonesia are certified under ISPO, and the low uptake is commonly attributed to the globally low perception of it as a credible certification scheme.<sup>11</sup> A presidential regulation is being drafted to strengthen the ISPO scheme and address criticisms like inadequate environmental protection, weak law enforcement and poor governance.<sup>12</sup>

## MALAYSIA



The Malaysian Sustainable Palm Oil (MSPO) standard was launched in 2015. As of November 2018, about 23% of oil palm plantations in Malaysia are MSPO certified.<sup>13</sup> Plantation companies must be certified by mid-2019, while smallholders must do so by end-2019.<sup>14</sup>



There are concerns that Malaysia will miss its 2020 target due to the sheer number of smallholders. However, without setting itself a concrete goal, industry experts say MSPO might not be taken seriously.



Malaysia's Minister of Primary Industries announced plans to halt all expansion of palm oil, to address and dispel claims that palm oil is a key driver of deforestation. To continue to meet demand, Malaysia will focus on boosting productivity and yields of existing oil palm trees.

## INDUSTRY EFFORTS



As of June 2018, around 3.2 million hectares of plantations across 16 countries are certified by the RSPO. Indonesia and Malaysia make up 79% of the total RSPO certified area.<sup>15</sup> RSPO hopes to achieve 50% certified sustainable palm oil in both countries by 2020.<sup>16</sup>



Consumer Goods Forum industry group members made commitments to eliminate deforestation from their supply chains by 2020.<sup>17</sup> Most traders committed to the No Deforestation, No Peat and No Exploitation (NDPE) policies in 2014.<sup>18</sup> In 2017, companies with NDPE policies comprise 74% of the total refinery capacity in Indonesia and Malaysia.<sup>19</sup>



The High Carbon Stock Approach – a multi-stakeholder initiative – will play an increasingly key role to prevent deforestation. The HCSA Toolkit serves to standardise the methodology for protecting tropical forests and identifying suitable landscapes for sustainable palm oil production.<sup>20</sup>





IDH – the sustainable trade initiative is working with various stakeholders to verify the sustainability of entire jurisdictions, not just individual producers, mills, or commodities. The Verified Sourcing Areas (VSAs) mechanism establishes a direct link between the producing regions and end-buyers, and could be an alternative to certification schemes, which are still crucial, but face challenges in reaching critical mass.



The Accountability Framework initiative is being developed by a coalition of NGOs to create a common set of definitions, norms and good practices for the agroforestry sector around the world. This can help companies monitor and verify their efforts in a credible manner, and ensure that companies are delivering on their sustainability commitments.



International NGO, SNV is the focal point for the Smallholder Acceleration and REDD Programme (SHARP) in Indonesia. SHARP comprises various parties like producers and supply chain companies, financiers, NGOs, governments, and smallholders. It aims to improve the capacity of independent smallholders, offer market access and facilitate access to credit, agricultural inputs, information and technology. It also helps smallholders in obtaining certification.



# Establishing the baseline for the demand for sustainable palm oil in major consumer markets

## EUROPE

### Current status of the demand for sustainable palm oil

Europe has witnessed varying levels of understanding of sustainable palm oil production. There are also levels of acceptance of the use of palm oil in biofuels.

To boost the region's use of renewables, the EU introduced the Renewable Energy Directive in 2009 which requires EU member states to work towards a collective target of 20 percent renewable energy usage out of its total energy consumption by 2020. By then, the transport sector must also reduce their emissions – at least 10 per cent of their energy must come from renewable sources like crop-based biofuels.

Until the recent regulation, palm oil has been the leading choice for the production of biofuels, mainly because it is cheaper than other oils including rapeseed, which is produced locally in the EU. The directive drove up the imports of palm oil – according to a recent report by Transport and Environment, Europe's federation of non-governmental organisations (NGOs) that campaign for cleaner transport, 48 percent of all EU's palm oil imports in 2016 were used for the sector, up from only 8 percent in 2010.<sup>21</sup>

However, there are concerns that the cultivation of crops like palm oil and soy leads to deforestation and peatland drainage, resulting in higher greenhouse gas emissions. According to critics, a higher demand for biofuels from food crops caused an increase in the demand for agricultural land. In turn, more forests, peatlands, grasslands, and the like, are converted, destroying biodiversity and releasing more greenhouse gases into the atmosphere. This results in a phenomenon known as indirect land use change (ILUC).

ILUC has become the centre of debate as it will determine the crops that can count towards the renewable energy targets for the transport sector under RED II. Although well intentioned, there is considerable ambiguity in definitions and scientific methodologies to calculate land use change. Nonetheless, the EU Commission went ahead to classify palm oil from large plantations as the only biofuel feedstock crop with high ILUC and it will be phased out by 2030, in the Delegated Act submitted in February 2019.

At the same time, there are supporters of palm oil – only if it is sustainably produced. Others are not against palm oil per se, but want a full phase out of all food-based biodiesel so that more palm oil can be channelled into the food sector. There should be stronger safeguards for food too, to ensure there is a market for sustainable palm oil.

### Challenges in driving higher demand for sustainable palm oil

One major barrier to higher uptake for sustainable palm oil is the strong anti-palm oil sentiment among the European public. Interviews with European stakeholders highlight that the sentiments of the general public have a significant influence over the authorities' position on palm oil.

Public resentment is fuelled by concerns over climate change, environmental degradation, and biodiversity loss and these are exacerbated by vocal NGOs and campaigners. However, this subjective predisposition against palm oil goes beyond biodiesel to include its use in food, cosmetics, etc.

### Outlook

Two of the world's biggest palm oil producers, Indonesia and Malaysia, have been up in arms since the EU announced the revision of its Renewable Energy Directive. Many officials and industry players interpreted it as a ban, which the EU insisted was a misunderstanding; indeed, the smallholder exemption offered therein is potentially substantial.

Both countries continue to protest the directive, which they believe would not only harm trade and economy, but also hurt smallholders who produce 40 percent of the world's palm oil. There have been threats of trade retaliation, freezing exports of palm oil to Europe, and bringing the matter to the World Trade Organisation on the basis that the directive discriminates against palm oil.

Some fear that the EU's moves might stall or even reverse many of the improvements of the past years, and there have been calls for the EU and other countries to support the right policies that are emerging in Indonesia and Malaysia. Others are concerned that palm oil producers will respond by increasing their supply to markets with low or no such requirements for sustainability.

Despite these concerns, our interviews with several key European stakeholders revealed that the palm oil debate, and whether to exclude palm oil in the RED II are domestic issues, motivated by a genuine concern for the environment alongside strong commercial, fiscal and subsidy interests. Therefore, they do not expect interference by other non-European countries.

Within Europe, there is also a lack of understanding of the ripple effects pertaining to global trade and economy. The heavy exposure is remarkable, with over half of Malaysia's agricultural land planted with oil palm. Palm oil has been a stumbling block as the EU negotiates free trade agreements with Indonesia and Malaysia. Both countries have called for a halt in elevating EU-ASEAN relations to a strategic partnership until the palm oil issue is resolved. Moving forward, further steps are needed for inter-regional dialogue and assistance.

## 3.2 INDIA

### Current status of the demand for sustainable palm oil

India is the world's biggest buyer of palm oil, guzzling about 16 percent of the world's total. The country has its own palm oil plantations – but at 300,000 hectares currently under cultivation, it is a fraction of Indonesia's 11.9 million.

The biggest problem with palm oil cultivation in India is water scarcity, along with lack of planning and infrastructure, low land productivity due to incorrect use of fertilisers, and poor economic status of growers. The yield of fresh fruit bunches is also much lower compared to its Southeast Asian counterparts.

As such, India has to import most of its palm oil to feed its population of 1.3 billion people. It spends about US\$10 billion and more annually on vegetable oils, of which palm oil from Indonesia (75 percent) and Malaysia (25 percent) has the highest share.

According to a recent report published in November 2018, India is at risk of becoming a large 'leakage' market for unsustainably produced palm oil as more than half of the country's crude palm oil import comes from refiners that are not covered by No Deforestation, No Peat, No Exploitation (NDPE) policies.<sup>22</sup> The report also revealed that India has become a replacement market for Indonesian companies that have been dropped by some of the world's biggest processors and traders.

Notwithstanding, a few developments have been observed, such as the Indian Palm Oil Sustainability (IPOS) framework. The IPOS contains principles and standards that are economically, environmentally, and socially beneficial, and assists various stakeholders to comply with national and international standards.

In addition, a memorandum of understanding was signed between IPOS and Indonesia's ISPO, recognising both as legitimate sustainability frameworks for palm oil production and trade between the two countries. Other NGOs are working to improve consumer awareness of sustainable palm oil, although many say it is an uphill battle. However, India has seen social media alarms about the nutrition and food safety of palm oil.

### Challenges in driving higher demand for sustainable palm oil

India is a price-sensitive market, especially since 1 in 5 lives below the poverty line. The general public's level of awareness of sustainability remains low. This means there is little to no pressure on India's domestic market to shift to more sustainable palm oil sources. Certified sustainable palm oil is sold at a higher price due to cost of production, and low demand, among other factors.

### Outlook

Amidst the growing anti-palm oil sentiment worldwide, India has plans to boost palm oil production domestically to be more self-sufficient to keep pace with growing consumption. It intends to grow its area for palm oil cultivation to 2 million hectares from the current 300,000.<sup>23</sup>

Currently, the government has committed to spend US\$1.5 billion to help farmers through subsidies like offsetting the cost of buying and planting new oil palm trees. If successful, India would be able to produce 8 million tonnes of palm oil annually, which means the country will only need to import around 2 million tonnes from Indonesia and Malaysia, down from the current 10 million tonnes.<sup>24</sup>

This push for self-sufficiency in edible oils has raised concerns of environmental degradation in India, similar to what had happened in other palm oil producing countries. There are also questions as to whether India would put in place any national certification standards, like ISPO and MSPO, to ensure that the output is sustainable.



## 3.3 CHINA

### Current status of the demand for sustainable palm oil

In China, the number of RSPO members has seen exponential growth, from almost none before 2011, to about 90 now.<sup>25</sup> One report showed that the uptake of membership is significantly higher than in India, even though RSPO had hopes to certify 30 percent of India's palm oil imports by 2020 and in China, only 10 percent.<sup>26</sup>

According to the same report, a few key factors have allowed RSPO to penetrate into the Chinese market better than in India. For instance, about three quarters of imported palm oil goes into the food processing industry to produce consumer goods like instant noodles; the rest goes to the oleochemical industry responsible for goods such as personal care products. These products are mostly made by brand name manufacturers outside China that are more environmentally-conscious. Moreover, multinational retailers like Walmart are playing an increasingly important role in introducing sustainable palm oil as China's retail sector grows.<sup>27</sup>

In addition, the launch of the China Sustainable Palm Oil Alliance serves to nudge not only MNCs but also Chinese companies to source sustainable palm oil. The Chinese government has also been proactive, developing the Guide for Overseas Investment and Production of Sustainable Palm Oil by Chinese Enterprises in 2015 with sponsorship from the UK government.

### Challenges in driving higher demand for sustainable palm oil

Currently, only 1 percent of palm oil imported into China is certified sustainable<sup>28</sup> and consumer awareness is low.

Interviews with key stakeholders in Beijing also revealed that Chinese companies often want to understand the full costs before committing to sustainability initiatives like the RSPO. Despite the increase in RSPO membership, domestic companies refrain from purchasing RSPO certified palm oil due to higher costs. There is also a larger emphasis on meeting basic needs as well as food safety, so sustainability does not rank high on the country's agenda.

On top of that, palm oil is not the preferred vegetable oil in China vis-à-vis soy, making up less than a fifth of the total vegetable oil consumption in China. It is suggested that the Chinese government does not pay as much attention as it should to palm oil, and there is no strict policy or legislation to spur the uptake of palm oil, much less ensuring that it is sustainable.

### Outlook

China's demand for palm oil is set to grow due to its versatility and affordability compared to other oils like rapeseed. In addition, the country's trade spat with the US has affected soy imports, making palm oil an attractive alternative.

In fact, China recently signed a deal with Malaysia to buy nearly US\$900 million of palm oil, and has publicly announced that it is open to increasing its import quota of Indonesian palm oil. These figures often reflect past volumes and may not excite traders. Moreover, there is no mention of sustainability on the government-to-government level.

Without pressure from major markets like China, there are concerns regarding the lack of incentive for palm oil producers and smallholders to go beyond what ISPO and MSPO legally require, and to aspire towards higher sustainability standards.



## 4 Next Steps

To facilitate meaningful dialogue and engagement among stakeholders in producer and consumer markets, key efforts are required in four main areas. These are: (1) aligning smallholders with certification schemes and broader sustainability goals; (2) advancing science-based policies for the palm oil sector; (3) accelerating consumer education and outreach; as well as (4) adjusting financial incentives to reward sustainable practices.

It is hoped that over time, these steps can advance governments' understanding of the gaps and develop suitable incentives that promote higher uptake of sustainable palm oil. Moreover, companies may be able to uncover potential business opportunities through pursuing sustainability as the younger generation becomes more environmentally- and socially-conscious in their purchases.

### 4.1 Aligning smallholders with certification schemes and broader sustainability goals

- 1 Joint or cross-certification between mandatory and voluntary palm oil standards.** Smallholders may already find it costly to fulfil the requirements of mandatory certification schemes. To encourage smallholders to adopt higher sustainability standards – which are often embodied in voluntary certification schemes – introducing joint or cross-certification for smallholders could help to lower costs and improve their market access.
- 2 Startup funding to map out and legalise smallholders.** Funding would be required to kick start efforts to map out the location of smallholders and secure their legal ownership of the land. Their legal status will in turn increase their access to finance and support from different stakeholders.
- 3 Group smallholders into sustainable palm oil clusters.** A cluster approach would allow the government easier access to a wider pool of smallholders and provide support in an impactful way. This approach has already been adopted in Malaysia.

### 4.2 Advancing science-based policies for the palm oil sector

- 1 Science should be more objective, and there needs to be a consensus of which and whose science should be taken as a standard.** As much as possible, governments should create policies based on science, not the other way round. There are also questions as to which science, from the East or the West, should be followed, as a common palm oil science is not agreed upon across the globe. On top of that, consumers are more likely to take palm oil science seriously if it pertains to concerns close to them like nutrition. However, advancing the science of sustainable palm oil is harder to swallow as they are too detached from environmental issues like deforestation.
- 2 There should be a policy for greenhouse gas emissions, not just one especially for palm oil.** There should also be standards for other vegetable oils. Bearing in mind that RED II is widely regarded as a policy to ban palm oil biodiesel from the EU's transport sector due to its high greenhouse gas emissions from ILUC, industry observers suggested that there should be a policy to effectively address the issue of GHG emissions that cuts across all major emitters – not just palm oil. In addition, other commodities do not have certification standards like palm oil does.

### 4.3 Accelerating consumer education and outreach

- 1 Industry should send a unified message on palm oil and the journey towards sustainability.** Both upstream and downstream palm oil companies currently have varying sustainability policies, which critics say should all be aligned so that consumers can have a clear idea of what the industry is doing to improve its sustainability standards. The industry is also not spending enough money to correct the negative perception of palm oil, compared to NGOs for instance. Use of an evidence based approach and a fuller package of information is needed to convince finicky markets.
- 2 Governments should play a part in generating consumer awareness.** Palm oil producing countries should consider spending a fraction of their total export revenue to promote the image of palm oil, and educating buyers and consumers about sustainable palm oil.
- 3 The industry should fill in information gaps for consumers.** Consumers are interested in environmental issues like biodiversity, deforestation, climate change, protection of indigenous people, and food safety, among others. Palm oil producers should provide more information about their achievements in these domains, beyond deforestation, to help consumers better appreciate the value of certifications.

### 4.4 Adjusting financial incentives to reward sustainable practices

- 1 Financial institutions should incorporate sustainability targets within transactions.** Supported by data, these targets ensure that the company or entity involved prioritises sustainability issues and is held accountable for them. Making the maps of agribusiness activities accessible to financial institutions can help them to verify these efforts.
- 2 Besides sustainability performance-linked loans, financial institutions can consider other financing instruments such as green bonds.** Another possibility is to combine blended finance and Islamic Finance. These approaches could introduce new ways of de-risking and expand the existing investment pool.
- 3 Financial institutions should always look to improve their sustainable financing practices to attract clients with strong credentials on sustainability.** Financial institutions are part of the supply chain and the adoption of weak sustainability standards in their financing practices could present reputational risks to the companies who are linked to them. As companies develop their sustainability credentials, sustainability may become an increasingly important consideration for their choice of financier.



## 5 Conclusion

Despite the varying standards of sustainability across producer and consumer markets, the palm oil industry needs to continue on its path of sustainability, which has undeniably come a long way.

Here, it seems that certification is at an important crossroads: there are little premiums for certificates as price-sensitive markets like China and India will not pay more; at the same time, palm oil companies – especially those in the upstream supply chain – face criticisms for not doing enough and often have to shoulder the additional costs of sustainability. Moreover, a large proportion of smallholders have yet to be certified as the process is costly and complicated. Intermediate steps that do not explicitly focus on certification such as Verified Sourcing Areas are currently underway to assist small and mid-sized players to adopt more sustainable practices and be recognised by major buyers for their effort.<sup>29</sup> More support is needed to help these small-scale farmers attain certification while ensuring that certification is similarly valued by major consumer markets in China and India through campaigns and educational efforts.

Following the EU Delegated Act in February 2019, future research could involve a stock-take on the disparate actions and impacts on Europe, other major consumer markets as well as the palm oil producing countries and industry. This will help identify areas for further collective effort towards palm oil sustainability.



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## Authorship and Acknowledgements

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All views expressed in this Report are those of the authors, unless otherwise credited.

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