Corporate commitments to sustainability: New discourses and praxis in palm oil production in Indonesia

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Oil palm has expanded rapidly with contradictory impacts.

- Palm oil sector contributes with **positive economic impacts**
- Positive indirect impacts on **local growth** and **poverty alleviation**
- BUT plantations development also creates **social conflict**
- AND it also **expand in detriment of forests** and **peatlands**
- Leads to habitat destruction, **biodiversity loss** and **GHG emissions**

**Responses** have emerged in the **public** and **private sector**

- ‘No deforestation, no peat and no exploitation’ goals in the **private sector**
- AND **state efforts to regulate expansion** within broader policy frameworks
OIL PALM IN INDONESIA

- 10.5 Million hectares cultivated
- 27.8 Million tons CPO
- 3.5 Tons CPO/ha/yr
- 53% global CPO supply

- Farmers: 2.1 Million households
- Labor: 3.0 Million people
- Smallholders: 42% of total cultivated area
- 25 corporate groups control most of the supply
- ~850 Palm oil mills
PERSISTENCE AMIDST CHANGE

- The government has made **progress in regulating land use** (e.g. spatial planning, moratorium)
- **Yet**, ambiguous sectoral policies persist triggering unregulated oil palm expansion
- **Major corporate groups** have been making **bold commitments towards sustainability**
- **Yet**, strong **open opposition** from Indonesian government to ‘zero deforestation’ movement
- **And**, corporate sector increasingly clashes with a quite vigorous **informal/illegal sector**
- **Thus**, **state action** at different levels is required to overcome some critical constraints
- Main constraints are related to **licensing system, land tenure** and **perverse incentives**
THE PALM OIL 'POLICY REGIME COMPLEX'

- **Global and regional trade**: EU-RED, ESPO
- **Finance and investments**: Banking Environment Initiative (SCC), OJK (Sustainable Financial Roadmap)
- **Company policies and codes of conduct**: Voluntary standard systems (ISCC, RSPO, RSPO Next)
- **Collective pledges**: (IPOP, SPOM)
- **Downstream**
  - Voluntary standard systems
  - Company policies and codes of conduct
  - Collective pledges
  - NGOs campaigns and actions
  - InPOP
  - CPOPC
  - CPO Fund
  - Peatland restoration
  - BRG
- **Upstream**
  - Voluntary standard systems
  - Company policies and codes of conduct
  - Collective pledges
  - NGOs campaigns and actions
  - InPOP
  - CPOPC
  - CPO Fund
  - Peatland restoration
  - BRG

**Macro**
- Fiscal
- Commercial
- Financial

**Sectoral**
- ISPO
- CPO Fund
- Peatland restoration

**Certification**
- Supply chain interventions
- Public policy
- Policy goals

**Public Policy**
- Climate change reduction
- Sustainable oil palm development
- CPO price stabilization

**Policy Goals**
- Fiscal
- Commercial
- Financial

**Supply Chain Interventions**
- NGOs campaigns and actions
- Global and regional trade
- Finance and investments
- Company policies and codes of conduct
- Collective pledges
- Voluntary standard systems
- Peatland restoration

**Global**
- Regional trade
- Finance and investments

**Sub-National**
- NGOs campaigns and actions
- Global and regional trade
- Finance and investments
- Company policies and codes of conduct
- Collective pledges
- Voluntary standard systems
- Peatland restoration

**National**
- NGOs campaigns and actions
- Global and regional trade
- Finance and investments
- Company policies and codes of conduct
- Collective pledges
- Voluntary standard systems
- Peatland restoration
Between **voluntary** and **mandatory** sustainability standards

**Many standards** are adopted for the **same drop of palm oil**
- RSPO, ISPO, ISCC

**Contrasting definitions** of **sustainability** across actors
RSPO [slow adoption but grows over time], RSPO Next [its uptake is little realistic], ISPO [implementation is also behind schedule] / RSPO and ISPO converge on several issues, but diverge in key ones

**AND, also no common definitions** of [high-carbon] **forests**
- HCV under RSPO, HCS and HCS+ [being harmonized]

**Harmonization** is still **a long way to go** [but is it desirable?]
About **255 companies** made commitments to support sustainable palm oil supply – **98 on ’zero deforestation’**

- Pledges are individual and collective
- Prominent pledges on ‘zero deforestation’, including main CGC, producers, processors and traders of palm oil are:
  - Consumer Goods Forum (2010) on ZND
  - Sustainable Palm Oil Manifesto, SPOM (July 2014)
  - The New York declaration on forests (Sep. 2014)
  - Indonesian Palm oil Pledge, IPOP (Sep. 2014)

- Pledges on ‘zero deforestation’ **embraced by most of the processors and traders** at the downstream stage of the value chain, but **have not yet reached to their suppliers, particularly mid-size companies**

Based on [http://supply-change.org/commodity/palm#company-profiles](http://supply-change.org/commodity/palm#company-profiles)
THE CHALLENGES OF IMPLEMENTATION

- Capacity to incorporate social and environmental criteria into operations is improving in some large firms.
- Traceability is being clarified, but most efforts only comprise flows from refineries back to the mills.
- Main challenge is the ability to trace third-party sources of supply (from mills to growers).
- Company disclosure is improving, but some companies are more transparent than others.
- BUT independent evidence is lacking, and when it does exist, is questionable – transparency is an issue.
- AND questions still surround definitions of forests, mainly with regards to HCV/HCS methods.
- No clarity on how to sustain independent smallholders supply to align with government agenda.
COMMITMENTS FACING A COMPLEX REALITY

- RSPO certification only comprises a few major corporate groups
- Adoption of ISPO mandatory sustainability standards is still low
- Disbandment of IPOP accused by government of cartel behavior
- Still difficult to harmonize definitions of forests under HCV/HCS
- Intense land speculation and encroachment of state forests
- Many (illegal) smallholders not entitled to receive state support
- Difficulties for monitoring given constraints to disclosure of permits
- Incentives for downstream investments and expansion of biodiesel
- Enough sources of finance for oil palm plantations development
- YET, not all companies willing to invest in sustainable practices
EMERGING PERSPECTIVES

- **Supply chain interventions** to *produce* and *protect*
  - Extend the traceability from direct to indirect suppliers
  - Monitor and rewards for improvements in performance
  - Technical assistance with flexible technological packages

- **Schemes to lower risks and de-risk investments**
  - Integrating environmental criteria into commercial lending
  - Building business models considering risk-sharing schemes
  - Blending public and private finance to support smallholders

- **Jurisdictional and/or territorial approaches**
  - Systems to monitor social and environmental performance
  - Fiscal incentives to support good environmental performance
  - Policies of preferential sourcing by processors/industry
CONCLUDING REMARKS

- Oil palm is one of the most polemic commodity crops
- Palm oil value chains is becoming more complex over time
- Governing oil palm constitutes a multifaceted puzzle
- Different views of palm oil sustainability tend to co-exist
- Public policy and state’s responses are contradictory
- The private sector is playing a more prominent role
- Still disputes on ‘what’ and ‘whose’ rules to follow
- THUS, on how to harmonize a more complex policy regime
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