

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

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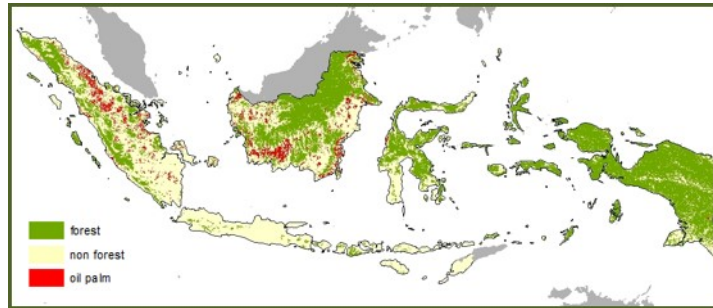


BACKGROUND

- **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



Farmers
2.1
Million households

10.5
Million hectares cultivated

27.8
Million tons CPO

3.5
Tons CPO/ha/yr

Labor
3.0
Million people

Smallholders
42%
of total cultivated area

25
corporate groups control most of the supply

~850
Palm oil mills

53%
global CPO supply

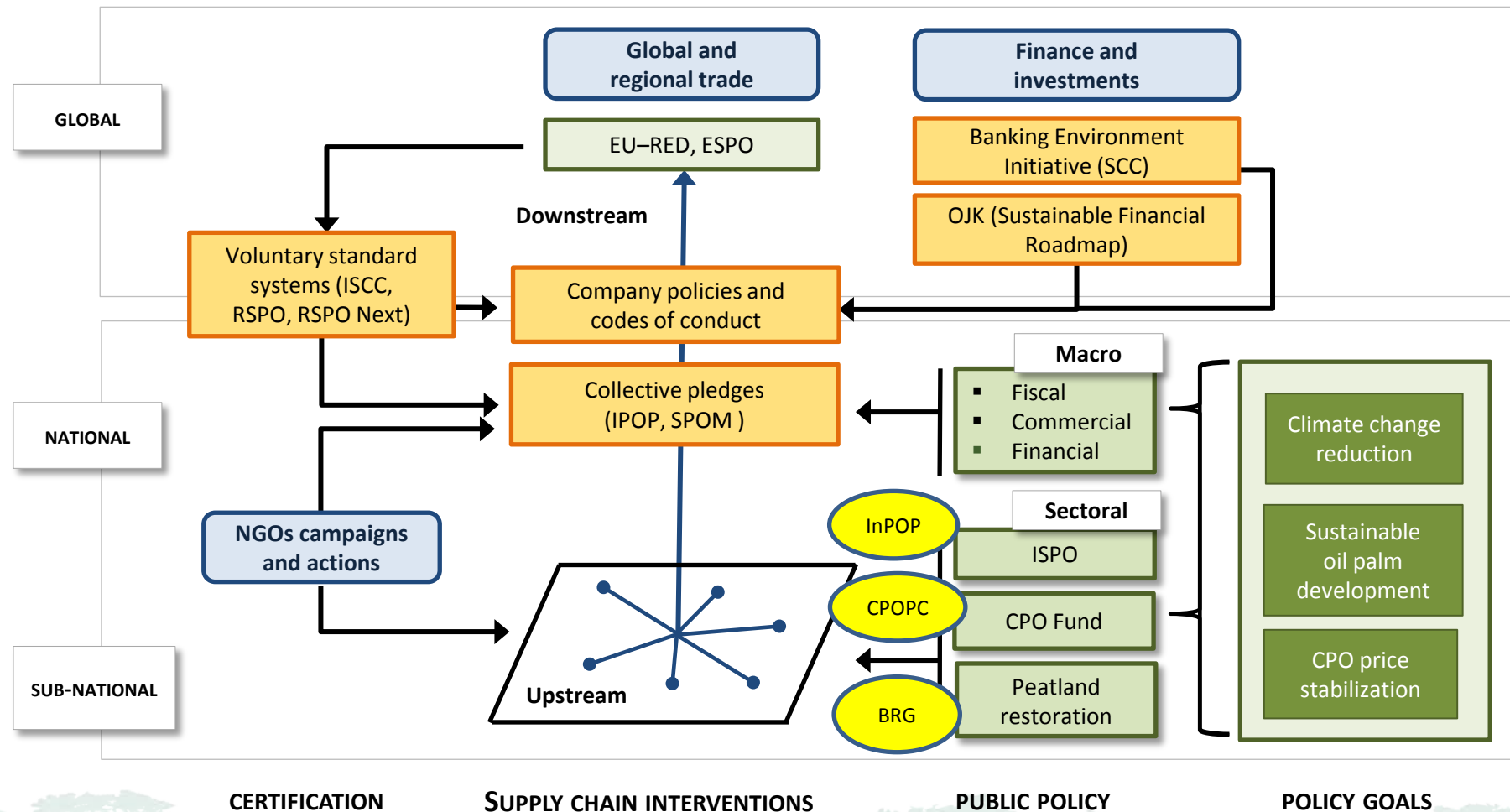


PERSISTENCE AMIDST CHANGE

- 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'



MANY STANDARDS FOR THE SAME DROP OF OIL

- 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?]



THE PLEDGES AS THEY STAND

- 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>

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



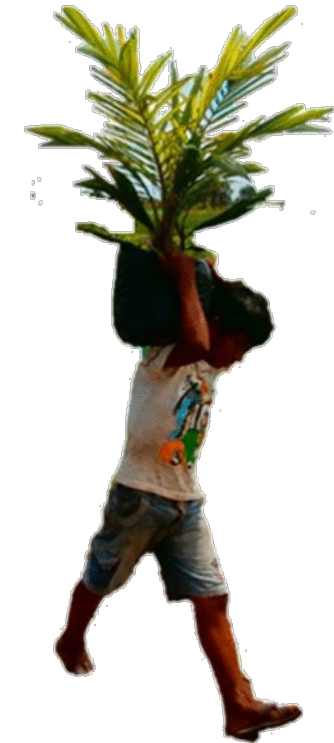
COMMITMENTS FACING A COMPLEX REALITY



- **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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