

Defining sustainability in oil palm production: an analysis of existing sustainable agriculture and oil palm initiatives

Discussion paper for the Round Table on Sustainable Oil Palm

25 July 2003



58 St Aldates
Oxford OX1 1ST
United Kingdom

Telephone
+44 (0)1865 243439

Email
info@proforest.net

Website
www.proforest.net

Table of Contents

1. INTRODUCTION	1
1.1 PURPOSE OF THIS PAPER	1
1.2 BACKGROUND TO THE ROUND TABLE	2
1.3 DEVELOPMENT OF INITIATIVES DEFINING AND ASSESSING SUSTAINABILITY.....	2
1.4 METHODOLOGY AND CONTENT OF THIS PAPER	3
2 GENERAL BACKGROUND TO INITIATIVES	5
2.1 DEFINITIONS OF SUSTAINABILITY	5
2.2 ASSESSING COMPLIANCE	6
2.3 THE NEED FOR CREDIBILITY	7
2.4 CLAIMS AND CHAIN OF CUSTODY	8
3 REVIEW OF EXISTING INITIATIVES	10
3.1 OVERVIEW	10
3.2 COMPARISON OF INITIATIVES	10
3.2.1 <i>Scope of the schemes</i>	10
3.2.2 <i>Structure and general characteristics of the schemes</i>	11
3.3 CONCLUSIONS	12
4 QUESTIONS FOR ROUND TABLE CONSIDERATION	17
4.1 DEFINITIONS OF SUSTAINABILITY	17
4.2 ASSESSING COMPLIANCE	20
4.3 CLAIMS AND CHAIN OF CUSTODY	21
4.4 GOVERNANCE STRUCTURE	21
APPENDIX 1: EXISTING INITIATIVES	23
<i>International Federation of Organic Agriculture Movements (IFOAM)</i>	23
<i>Social Accountability International (SAI)</i>	25
<i>Sustainable Agriculture Network (SAN)</i>	27
<i>Forest Stewardship Council (FSC)</i>	29
<i>Environmental management systems standard (ISO 14001)</i>	31
<i>Euro-Retailer Produce Working Group Good Agricultural Practice (EUREPGAP)</i>	32
<i>Migros Criteria for Oil Palm Plantations</i>	34
<i>Rabobank criteria for financing palm oil plantations</i>	36
<i>Financial services to oil palm plantation companies; proposed screening of potential clients by financial institutions</i>	38
<i>Unilever Sustainable Palm Oil – Good Agricultural Practice Guidelines</i>	40
<i>Pacific Rim Palm Oil Environmental and Social Handbook</i>	42
<i>Environmental Guide for the Oil Palm Agro-industry Subsector (Fedepalma/Ministry of Environment, Colombia)</i>	45
<i>Malaysian Palm Oil Association – proposed sustainable environmental charter</i>	47

1. Introduction

1.1 Purpose of this paper

The first meeting of the Round Table on Sustainable Oil Palm will be held in Kuala Lumpur, Malaysia in August 2003. This document is a technical discussion paper for the Round Table providing information about the existing initiatives which seek to define or implement 'sustainability' in some form for oil palm plantations. The paper describes:

- general background information about initiatives which aim to define, implement and evaluate 'sustainability' in natural resource management;
- initiatives which are or could be applied to oil palm plantations, and
- options for consideration by the Round Table, including the option to develop new, tailor-made initiatives other than those reviewed here.

The companion discussion paper¹ identifies key themes concerning the environmental and social sustainability of palm oil production. This paper discusses two aspects of the potential responses to these issues that the Round Table will need to consider: the *definition* and the *assessment* of good management or sustainable management.

- ***Defining good management:*** if members of the Round Table are to make any type of commitment to implementing good or sustainable management, it is important to have a definition of what this is. Currently there is no single widely accepted definition of sustainable management for oil palm plantations, nor even for good management. However, a number of different initiatives do exist which seek to do this wholly or in part. The paper reviews what already exists and explores the extent to which it could be used by the Round Table.
- ***Assessing good management:*** in addition to the need to define good management, the Round Table will also need to consider the possible need for assessing whether or not it is being implemented in practice. Assessment can range from a relatively informal internal exercise to the very formal process of independent certification. This paper examines what already exists as a basis for discussions by the Round Table about what type of assessment, if any, is appropriate for the oil palm sector.

This paper reviews a wide range of initiatives, including best management practice guidelines and formal certification schemes. It does not seek to recommend one initiative or mechanism over the others, rather, it discusses some of the advantages

¹ ProForest. 'Palm Oil, forests and sustainability'. Discussion paper for the Round Table on Sustainable Oil Palm. 25 July 2003.

and disadvantages of the different approaches and summarises the key areas of 'sustainability' covered by the different initiatives.

1.2 Background to the Round Table

The Round Table on Sustainable Oil Palm is a collaborative effort by leading players in the industry, together with WWF (the World Wide Fund for Nature). The aim is to establish broad consensus on the main social and environmental issues associated with oil palm and then to design and implement a programme of action. A central principle is the belief that, given sufficient commitment to improving and adopting best practice within the industry, oil palm cultivation can continue to develop whilst at the same time preventing or minimising most of the serious negative impacts reported in the past.

1.3 Development of initiatives defining and assessing sustainability

Over the past decade there has been a rapid increase in the number of initiatives that strive to define and assess the sustainability of production processes for a range of products. These initiatives range from industry-led best management practice (BMP) guidelines through to formal certification standards.

These initiatives generally incorporate the three basic elements of sustainability – environmental, social and economic concerns – although the balance between these elements varies depending on the aims of the groups developing them and the most serious concerns of the sector in question. Some initiatives, such as the organic and fair trade schemes, have developed out of older movements into formal certification schemes. A wide range of approaches have been developed according to the needs of different production systems, resource types and stakeholder demands.

A number of initiatives have been developed by plantation companies, manufacturers and retailers which aim to define and provide a framework for assessment of 'sustainability' in agriculture and some for oil palm in particular. Other industry initiatives provide guidelines for the management of impacts of oil palm plantations. All these initiatives share some common features. In particular, they use environmental, social and economic indicators to try and define sustainable, or good management practices at the field level. To a greater or lesser extent they incorporate evaluation of compliance with the indicators. They also usually aim to provide some kind of message to consumers about the good management of natural resources.

Formal certification and standard setting processes have not yet focused specifically on oil palm. Some such schemes are sector specific (eg. forestry schemes) while others can apply across a range of sectors (eg. environmental management systems). Schemes have been developed for defining and assessing aspects of, among others, organic agriculture, social accountability, forest management, sustainable agriculture in specific crops and environmental management systems.

Industry and company level schemes that are specific to palm oil production that are included in the review are:

- Migros' Criteria for Oil Palm Plantations
- Rabobank Criteria for financing oil palm plantations
- Financial services to oil palm plantation companies; proposed screening of potential clients by financial institutions (developed by AIDEnvironment and Profundo)
- Unilever's Sustainable Palm Oil good agricultural practice guidelines
- Pacific Rim Environmental and Social Handbook
- Environmental Guide for the Oil Palm subsector in Colombia (produced by Fedepalma and the Ministry of Environment, Colombia)

A review of best management practices in Malaysia is also included:

- The Malaysian Palm Oil Association proposed Environmental Charter

The following certification schemes, which are not specific to the oil palm sector but which contain many relevant approaches and ideas are also included in the review:

- International Federation of Organic Agriculture Movements (IFOAM)
- Social Accountability International (SAI)
- Sustainable Agriculture Network (SAN)
- Forest Stewardship Council (FSC)
- Environmental Management Systems standard (ISO 14001)
- Euro-retailer Produce Working Group Good Agricultural Practice (EUREPGAP)

The way that each of these initiatives defines sustainability and what, if any, mechanisms are used to assess whether management is in compliance with the definition is examined.

1.4 Methodology and content of this paper

This paper was researched and written by ProForest with support from the Sustainable Agriculture Initiative Platform (SAI Platform). It was circulated to the Round Table Working Group for review and was revised on the basis of the comments received. It has been prepared using three sources of information:

- a desk review of existing initiatives for sustainable agriculture that could be applied to oil palm plantations and of initiatives specifically developed for the oil palm sector,
- consultation with the formally established Working Group,
- semi-structured interviews carried out by ProForest and SAI Platform.

The paper is divided into several sections:

- Section 2 provides a general background to initiatives: how 'sustainability' is defined, how compliance with definitions can be assessed, how the credibility of initiatives can be ensured and issues concerning traceability and claims about production methods.
- Section 3 is an overview of the existing initiatives: the degree to which they vary according in terms of the content of their definitions of sustainability and the means of assessing compliance.
- Section 4 summarises questions for consideration by the Round Table that result from the preceding discussions.

2 General background to initiatives²

2.1 Definitions of sustainability

All initiatives incorporate to some extent a definition of what is meant by 'sustainability' or 'good management'. This definition is often laid out in a set of guidelines, code of practice or formal standard, and most such documents cover the three main elements of sustainability: environmental, social and economic. However, the exact balance between the three elements and the requirements they contain differ between definitions of sustainability.

A definition of sustainability may have a dual function:

- first to describe good practices to be implemented on the ground
- second to provide the basis for evaluation of compliance.

Guidelines for good practice tend to focus on the former function; formal standards are often designed with the second function in mind. In this document we use the term 'definition of sustainability' with the understanding that it could be used for either or both of these functions.

A definition of sustainability usually tries to incorporate the three commonly accepted elements of sustainability: economic, social and environmental. However, in doing so there are often trade-offs and compromises between conflicting demands, and the point at which the trade-offs are made often has to be decided in the absence of full information.

Example: In oil palm plantations it is often suggested that areas of natural forest should be left, connected by corridors of natural vegetation. This may entail a number of trade-offs, for example:

- for the plantation manager there is a trade off between conservation values and the economic objective of maximising productive land.
- for local people, there may be a trade-off between conserving wildlife and damage to crops and livestock.

The exact size and locations of the areas that should be retained, and the width of the corridors which will be optimal for wildlife conservation will vary between locations and may not be known anyway. Hence, trade-offs may need to be made

² For further discussion of the ways in which an initiative may be developed and evaluated see *Assessing forest certification schemes: a practical guide* by Ruth Nussbaum, Steve Jennings and Michael Garforth (2002) available at www.proforest.net. While focusing on forest certification schemes, this publication is also very relevant to the development of a definition of sustainability for oil palm plantations.

environmental, social and economic requirements, and the trade-offs often need to be made in the absence of full information

The way in which these trade-offs are decided will have an effect on the content of a definition of sustainability and often on the perception of people who will use it and are affected by its use. It is therefore important to consider who should be involved in developing the definition of sustainability and how it should be developed. There are two basic approaches to developing definitions of sustainability, each of which has different advantages and disadvantages:

- **Small technical group.** A relatively small group of technical experts may develop a definition of sustainability. This may or may not then be reviewed by a wider range of people. The advantages of developing definitions of sustainability through a small group of experts are that it is likely to be a rapid and relatively inexpensive process and that the people who will actually be involved in implementing the definition can be closely involved. The disadvantages are that it may have limited credibility from wider society and that the contents of the definition will be limited by the knowledge, expertise and opinions of a small number of individuals.
- **Wide stakeholder input.** This may be through participation and voting by the full membership of an initiative or through participation of representatives of member organisations. The advantages of wide stakeholder input are that the resulting definition will have wide buy-in and credibility and that the definition will draw on a wider range of expertise. Disadvantages include increased cost and time.

Decisions about which of these two approaches (or some combination of them) is most appropriate will depend on the aims of the definition: the reason for developing it; how and by whom it will be implemented; and who will be affected by it.

2.2 Assessing compliance

The definition of sustainability sets out acceptable practices and may provide a basis for evaluation of compliance. Evaluation is often carried out by auditing. Where the aim of the definition is to assure external stakeholders that the plantation is being managed 'sustainably' (i.e. in compliance with the definition) it is crucial that the stakeholders have confidence in the assessment process.

There are three types of audit that could be used:

- first party assessments are carried out by the company or organisation itself to check its own compliance (also called internal audits).
- second party assessments are carried out by one organisation on another with which it has a relationship (for example a supplier audit).
- third party assessments are carried out by a completely independent body. In a certification scheme this would be a certification body (see section 2.4)

First party assessments provide essential information for an organization on its own performance and may identify areas for improvement and help internal understanding of achievements and constraints. These are required by some schemes such as ISO 14001. Second party assessment provides a useful basis for business to business communication and may provide assurances to business partners of good practice.

Where stakeholder assurance is important, independent third party assessment can provide greater independence. Third party assessments carried out under a recognised certification scheme also help ensure confidence by placing requirements on the certification bodies to comply with certain processes and standards themselves in their evaluation. A degree of transparency in decision-making, and provision of opportunities for stakeholder comment and/or complaints to be made all increase the level of assurance provided by a third party assessment.

Different types of assessment can be combined together: for example a third party assessment could check the results of a first party assessment. This sometimes helps reduce the time and costs involved in a third party assessment.

The costs of assessments (particularly third party) tend to be disproportionately high for smaller properties. In addition, smallholders often face problems of understanding the requirements of complex definitions of sustainability of practice and implementing requirements. Many oil palm plantations work with large numbers of small farmers through outgrower schemes. Specific consideration will be required in order to implement and assess an initiative on outgrowers' lands.

A further point is that most current initiatives require complete compliance with the requirements set out in their definition of sustainability at the outset. This can create difficulties for producers who need a lengthy transition period in order to achieve these requirements. During this transition period they currently receive little recognition of their efforts and few incentives to continue improving.

Initiatives which allow producers to work towards compliance over time, recognising progress and offering incentives for improved performance prior to full compliance may make these schemes more accessible to producers. Producers make a commitment to achieving the requirements within a certain time frame and may be assessed on their progress. However, consideration needs to be given to how progress would be assessed and what happens when a producer does not really make progress.

2.3 The need for credibility

One of the main drivers for the development of definitions of sustainability, and the mechanisms for evaluating compliance with them, has been the need for industry to demonstrate good practice to external stakeholders. Where this is a major driver, it is important for an initiative to have credibility with these stakeholders.

The credibility of an initiative can be affected by a number of linked issues, including:

- the definition of sustainability used – does the definition cover the issues of importance to stakeholders and set out the right requirements?
- the process of developing the definition of sustainability – which stakeholders were involved and what was their input to decision-making?
- the methods of assessing compliance with the definition of sustainability – how is it done in practice, where do assessors go, who do they talk to?
- the accreditation of assessors - who is authorised to carry out the assessments of compliance and what qualification do they have to do so?
- the transparency of the processes of defining sustainability, assessment and accreditation – can external stakeholders see for themselves why decisions were reached and have a mechanism for registering their disagreements?

All these issues have the potential to increase or decrease the credibility of an initiative with external stakeholders. However, there is a trade-off between increased credibility, speed of development, flexibility in implementation and cost of evaluations.

2.4 Claims and Chain of custody

The chain of custody refers to the path which a product takes from the plantation to the customer. In order for a retailer (or other seller) to make claims about the environmental or social conditions under which a specific product was produced, it must be possible to trace the chain of custody back to place where production occurred³. Hence if retailers wished to claim that a product contained palm oil that was produced in compliance with a definition of sustainability, it would be necessary to ensure that the oil in the product was traceable. This is called chain of custody certification. In many cases, products are traced back to an individual plantation, but the possibility exists to consider groups of plantations, smallholders or even broader areas, each of which has different implications for both the assessment of compliance and the credibility of the initiative.

Claims about production methods may be made in different ways⁴. On-product claims or labelling, often using a logo and/or explanatory statement, is an obvious

³ Guidelines have been developed by ISO (the International Organisation for Standardisation) covering environmental labels and claims (ISO 14020); in the UK the Green Claims Code (DETR, 2000) is also relevant, while the European Commission is considering developing EU guidelines.

⁴ In this paper, we have used ‘definitions of sustainability’ as an umbrella term to mean guidelines, codes of practice, certification standards etc. It is important to note

mechanism for communicating directly with consumers. As noted above, verification of the chain of custody of the product is essential for labelling, as the label makes specific claims about the properties of that product. Some schemes, (particularly ISO 14001 Environmental management systems standard) do not currently permit the on-product use of labels⁵.

Claims about methods of production may be made off-product in company literature, promotional materials, through membership of 'buyers' groups', etc. These claims do not necessarily require tracing the chain of custody of individual products, but do not communicate directly with final customers at the point of sale.

Where palm oil is traded in bulk, and the oil from a variety of plantations is mixed during transport and processing, traceability of oil from a particular plantation is lost. In order to make claims about the environmental or social impacts of the source plantations for a particular product, it is necessary to:

- be able to trace the chain of custody from plantation to end product, and
- ensure that the 'identity preserved' oil is not mixed with other unauthorised sources of oil.

Some importers and retailers currently ensure that they can identify the source of their oils (for example, Migros source oil from plantations checked against their own criteria; Pacific Rim Palm Oil sells oil to Europe with a traceable chain of custody for use by particular manufacturers; organic certification and kosher certification systems are traceable). Traceability (or identity preservation) of the chain of custody may offer other benefits, such as maintenance of quality control, food safety management, in case of disputes over quality, or for accounting purposes.

There are, however, significant costs associated with such traceability. Migros currently pays a premium of US\$150 per tonne to the plantation (30-50% above the world market price) for palm oil from plantations assessed against its criteria. It also pays a premium to the refinery in Switzerland of \$50 per tonne for the logistical cost of segregation. In addition, the development of segregated and traceable streams makes trading of palm oil as a bulk commodity on the futures markets difficult or impossible.

Other producers and manufacturers feel that the increased costs entailed by maintaining the identity of oils from particular plantations are too great for mainstream commodity markets. While these costs would reduce with time as greater volumes of 'compliant oil' were produced, they may be significant initially.

that claims that palm oil (or any other product) comes from a 'sustainably managed' source are not permitted (see Principle 1 of ISO 14020; and Clauses 5.3 and 5.5 of ISO 14021).

⁵ ISO 14001 is a *systems* standard – it certifies that environmental management systems are in place but not that a particular level of environmental *performance* is achieved by the company.

3 Review of existing initiatives

3.1 Overview

There is a range of initiatives, including both formal certification schemes and industry initiatives, which are relevant to the debate on management practices for oil palm. These initiatives demonstrate a range of approaches to defining sustainability, in the form of standards, good agricultural practice guidelines and reviews of existing best practice. Relevant initiatives were identified during an initial consultation phase with members of the Working Group and other consultees.

The structure, scope of coverage and content were then reviewed for the thirteen schemes identified.

The *scope* of coverage of each scheme was assessed in relation to the key issues identified in the companion paper⁶. Scope of coverage was recorded in two ways. Firstly, it was noted if the scheme had at least one requirement concerning a given issue (to allow at-a-glance comparisons between schemes). Secondly a brief summary of the full requirements was made.

The *structure* of each scheme was described using a standard set of characteristics, to facilitate comparisons. These are based on the issues discussed in Section 2.

3.2 Comparison of initiatives

Detailed summaries of the structure and coverage of each scheme are given in Appendix 1, together with any available information on costs; traceability of products; and benefits and challenges for oil palm. The main results are summarised here and in Tables 1 and 2, as explained in the following sections.

3.2.1 Scope of the schemes

The different schemes place different emphases on social and environmental issues, depending on their objectives and the scope to which they apply. Table 1 summarises the coverage of the schemes relative to the key issues of concern identified in the companion discussion paper. These issues are listed in the first column. Many of the schemes also cover other issues that have not been identified as being of high concern - this is not noted in the table.

A tick in this table does not indicate that each scheme offers an equivalent level of coverage, but rather that each scheme contains at least one relevant requirement. A more detailed comparison of the precise requirements that each initiative has for each topic is given in Appendix 1.

⁶ ProForest. 'Palm Oil, forests and sustainability'. Discussion paper for the Round Table on Sustainable Oil Palm. 25 July 2003.

Seven of the initiatives reviewed were based around best management practices in oil palm plantations:

- Migros' Criteria for Oil Palm Plantations
- Rabobank Criteria for financing oil palm plantations
- Financial services to oil palm plantation companies; proposed screening of potential clients by financial institutions (developed by AIDEnvironment and Profundo)
- Unilever's Sustainable Palm Oil good agricultural practice guidelines
- Pacific Rim Environmental and Social Handbook
- Environmental Guide for the Oil Palm subsector in Colombia (produced by Fedepalma and the Ministry of Environment, Colombia)
- The Malaysian Palm Oil Association proposed Environmental Charter (not included in Tables 1 and 2, as it is not yet formalised).

Six of the initiatives were more general certification schemes that are, or could potentially be, applied to oil palm plantations:

- International Federation of Organic Agriculture Movements (IFOAM)
- Social Accountability International (SAI)
- Sustainable Agriculture Network (SAN)
- Forest Stewardship Council (FSC)
- Environmental Management Systems Standard (ISO 14001)
- Euro-Retailer Produce Working Group Good Agricultural Practice (EUREPGAP)

Many of the issues of importance are also covered by national legislation and regulations. These should be taken as a starting point for the development or implementation of any initiative; some of the initiatives described explicitly state that legal compliance is a requirement. For others it is implicit or not stated. This is noted in Table 1.

3.2.2 Structure and general characteristics of the schemes

Table 2 lists the 13 initiatives and notes whether each of them provides means for assessing compliance with the definition of sustainability. It indicates what type of assessment is conducted: first party or internal audits, second party audit, or audit by independent, accredited third parties. It also indicates whether products from the participating plantations are traceable (or are identity preserved) and whether products from these are permitted to carry a label.

The seven industry initiatives include three which involve second party audits (Migros, Rabobank and (potentially) the financial services screening); two sets of internal company good practice guidelines/policies (Unilever and Pacific Rim); and two national palm oil association initiatives (Fedepalma and MPOA). Migros and

PRPOL use segregation mechanisms to ensure that products coming from participating plantations can be traced. Detailed descriptions of each are available in Appendix 1.

All of the certification schemes contain the three main elements which have been mentioned in Section 2:

- standards – this sets out the requirements which must be met and against which certification assessments are made (see 2.1)
- certification – the assessment of whether the standard has been met or not, which is usually third party and carried out by a certification body
- accreditation – the mechanism for ensuring that the certification bodies are credible and carry out assessments in a replicable and credible manner.

Many of these schemes also include tracing and evaluation of the chain of custody and control the use of labels and claims about products (Table 2).

3.3 Conclusions

The analysis presented above and in Appendix 1 demonstrates that there is considerable variation in all aspects of the reviewed initiatives. No initiative covers all of the key topics of sustainability that were identified in the companion discussion paper, and the way in which compliance with the scheme requirements is assessed also varies. These differences reflect the motivation behind the schemes and the purposes for which they were designed.

If it is decided that some form of ‘definition of sustainability’ is required, one of the options available to the Round Table is to use an existing initiative. An important element in deciding whether this is desirable is to determine whether any of the initiatives deal with the key issues that need to be covered.

Table 1 indicates which initiatives have one or more formal requirements relating to each key issue. Clearly, the coverage of these topics varies greatly between different initiatives: some have requirements relating to most of these (e.g. Migros, Unilever, PRPOL), others cover relatively few (e.g. ISO 14001, EUROGAP, Rabobank).

Several key areas of concern are treated in the majority of the initiatives reviewed. These include, for example, legal compliance, maintenance of soil fertility, use of chemicals in pest management and forest conversion. In practice, each of the initiatives deals with these issues in different ways and to differing depths, as discussed in Appendix 1. There is therefore a rich source of potential mechanisms for dealing with these topics.

By contrast, few of the initiatives have requirements relating to some of the other key issues concerning palm oil sustainability. For example, few initiatives have requirements that directly address issues of energy and gas emissions, large-scale social transformation or terms of trade for smallholders.

A second important decision regards the most appropriate mechanism by which compliance with any definition of sustainability is assessed. As noted above, the formal certification schemes all assess compliance with their requirements by independent, accredited third parties. This reflects that these schemes aim to provide a high level of credibility to external stakeholders. There is greater variation amongst the industry, company and best management practice initiatives. Some require assessment of compliance through non-accredited parties; others have no formal means of assessing compliance. Again, this reflects the specific motivation of each initiative.

A number of ISO guides exist on setting up and running certification schemes⁷. In addition the International Social and Environmental Accreditation and Labelling (ISEAL) Alliance is in the process of developing a Code of Good Practice for standard-setting procedures. This code⁸ would be relevant to the Round Table if it is decided that a new definition of sustainability should be developed for oil palm, whether or not the initiative is a formal certification scheme.

⁷ Listed in *Assessing forest certification schemes: a practical guide*, page 11.

⁸ Available at www.isealalliance.org/programs/index.htm

Table 1: Requirements concerning key sustainability issues of existing initiatives

Issues identified in 'Oil Palm, Forests and Sustainability'	IFOAM	SAI	SAN	FSC	ISO 14001	EUREPGAP	Migros	Rabobank	Financial services	Unilever	Pacific Rim	Fedepalma
Legal compliance		✓		✓		✓	✓	✓	✓		✓	✓
Environmental BMPs												
Establishing new plantations												
Forest conversion	✓		✓	✓			✓	✓	✓	✓	✓	✓
Choice of site - soil type			✓	✓							✓	✓
Clearance techniques - use of fire	✓		✓					✓	✓	✓		✓
Existing plantations												
Soil loss	✓		✓	✓		✓	✓		✓	✓	✓	✓
Soil fertility	✓		✓	✓		✓	✓			✓	✓	✓
Pest management (chemical use)	✓		✓	✓		✓	✓		✓	✓	✓	✓
Biodiversity on plantations	✓		✓	✓		✓	✓		✓	✓	✓	✓
Water management	✓		✓	✓			✓		✓	✓	✓	✓
Energy and gas emissions							✓			✓	✓	✓
Social BMPs												
Establishing new plantations												
Competing land claims			✓	✓			✓		✓		✓	
Large scale social transformation				✓			✓	✓	✓			

Table 1: Requirements concerning key sustainability issues of existing initiatives

Issues identified in 'Oil Palm, Forests and Sustainability'	IFOAM	SAI	SAN	FSC	ISO 14001	EUREPGAP	Migros	Rabobank	Financial services	Unilever	Pacific Rim	Fedepalma
Social justice and grievance procedures	✓			✓			✓		✓		✓	
Existing plantations												
Workers' rights												
<i>child labour</i>		✓	✓				✓			✓	✓	
<i>forced labour</i>	✓	✓					✓			✓	✓	
<i>health and safety</i>		✓	✓	✓			✓			✓	✓	
<i>freedom of association & negotiation</i>	✓	✓	✓	✓			✓		✓		✓	
<i>discrimination</i>	✓	✓	✓				✓				✓	
<i>working hours</i>		✓					✓			✓		
<i>remuneration</i>		✓	✓				✓			✓	✓	
Welfare provisions for workers												
<i>schools</i>	✓		✓							✓	✓	
<i>health care</i>			✓							✓	✓	
<i>housing</i>			✓			✓				✓	✓	
terms of trade for smallholders								✓		✓		

Table 2: Means of assessment of compliance, traceability and labelling of products of existing initiatives

Assessment, chain of custody and labelling	IFOAM	SAI	SAN	FSC	ISO 14001	EUREPGAP	Migros	Rabobank	Financial services	Unilever	Pacific Rim	Fedepalma
Assessment: 1 st party audit												
Assessment: 2 nd party audit							✓	✓	✓	✓	✓	
Assessment: 3 rd party audit	✓	✓	✓	✓	✓	✓						
Traceability	✓	✓	✓	✓		✓	✓				✓	
Labelling of products	✓	✓	✓	✓								

4 Questions for Round Table consideration

Many natural resource sectors have found it necessary to define 'sustainability'. From the industry perspective, this motivation comes from the desire to demonstrate that it is acting responsibly. For external stakeholders, it is a means of ensuring that any negative impacts associated with a sector are minimised or prevented. The Round Table on Sustainable Oil Palm is one response to these needs.

Experience has shown that defining precisely what 'sustainability' means in practice can be challenging. The previous section examined how a number of relevant schemes have faced this challenge for oil palm and other, related, sectors. The schemes reviewed do not cover all the same aspects of sustainability; have different driving forces and varied degrees of 'buy-in'. They also employ different mechanisms for assessing whether or not sustainability is being achieved in practice, ranging from self-assessment through to independent auditing.

In this Section, we discuss some of the options available to the Round Table on the basis of the initiatives discussed. This does not aim to recommend one or other of the existing initiatives, but rather to structure a discussion on what is needed.

In order to decide what is needed for oil palm plantations a number of questions need to be answered. These are grouped according to what type of definition of sustainability (if any) might be considered and what the contents of this might be; what methods of assessment might be most appropriate; issues surrounding traceability and claims and finally and how a scheme might be governed.

4.1 Definitions of sustainability

Is a definition of sustainability needed?

In Section 2 we discussed the use of a standard, set of guidelines or code of practice to set out acceptable practices and to provide a basis for evaluation of compliance. We have called this a 'definition of sustainability'.

A unified definition of sustainability for the palm oil industry could provide the forum to agree on acceptable standards for all stakeholders. The process by which this definition was agreed would need consideration to ensure representation and an appropriate level of credibility with external stakeholders.

Questions for the Round Table:

- is a definition of sustainability (guidelines/ standard) desirable, possible and/or necessary?
- if yes, who would be involved in agreeing it and by what process?

Existing scheme or new initiative?

There is already a wide range of initiatives which are or could be applied to oil palm plantations. Some of the initiatives have been developed with other sectors in mind and have not yet been applied to oil palm (eg. FSC and SAN). Discussions would be necessary with the 'owners' of these schemes to agree under what circumstances they would be agreeable to extend their operations to cover oil palm.

Some existing in-company guidelines and policies (eg. Migros, Unilever and Pacific Rim Palm Oil) cover a large number of the issues identified and are specific to oil palm. Consideration might be given to adopting or adapting an existing industry initiative (again, given agreement by the 'owners'). Existing experience in implementing the guidelines could be shared throughout the industry.

If a new initiative were to be developed, it could be fitted precisely the requirements of the Round Table (and other stakeholders, if appropriate). However, to do so would require considerable extra time and work.

Questions for round table consideration:

- Is it preferable to develop a new oil palm initiative or to work with existing initiatives?
- Do any of the existing initiatives provide all of the necessary requirements?

Industry code of practice or certification scheme?

This paper has reviewed both industry initiatives and certification schemes. Different types of scheme may provide different results. For example:

- A second party audit system may provide sufficient reassurance to buyers and/or investors.
- An industry code of practice may be felt to be more flexible and practical at a field level. The need for credible governance structures, transparency and evaluation systems would need consideration.
- A certification scheme which includes a defined standard (covering all the appropriate issues) and third party audits may be preferable for stakeholder and consumer reassurance, and retailer preferences.
- Where labelling is desired, a third party certification scheme may be needed to provide credibility.

Questions for Round Table consideration:

- Who needs to be assured of compliance?
- Is an industry code of practice, a second party audit scheme, or a certification scheme most appropriate?

What are the main issues of concern?

In the companion background paper ('Palm Oil, Forests and Sustainability') we identify and discuss a number of issues of concern that are commonly raised about oil palm plantations. However, there may be other issues which the Round Table would like to take into consideration, or some issues which are not considered to be priorities. In addition, a definition of sustainability covering environmental and social issues does not exist in isolation from other aspects of production such as food safety, quality assurance and legal requirements. Consideration might be given to incorporating these requirements together.

Table 1 summarises the issues and shows which initiatives include one or more commitments or requirements related to each issue. The precise nature of the commitments is summarised in Appendix 1.

Questions for round table consideration:

- Which issues are essential to be covered by a definition of sustainability?
- How should a definition of sustainability fit with other aspects of production?
- Can the issues be agreed by the Round Table or is greater stakeholder involvement needed?
- If agreement can be reached, do any of the existing schemes adequately cover all the issues?

Plantations, mills and refineries

A definition of sustainability could apply only to the operation of the plantation itself, or could include requirements for the plantation, mill and/or refineries. Certification standards usually focus on the plantation aspect: processing facilities may be included where the mill is on-site but there are often few specific requirements. The reviewed best management practice guidelines described here covers some aspects of mill performance (air and water emissions and effluent from mills).

In some areas, particularly where smallholders are involved in oil palm production, small-scale and traditional mills operate separately from the plantation. Such mills might have considerable difficulty complying with complex and stringent environmental and social requirements.

Further processing of palm oil typically takes place off-site at refineries. If complete coverage of the supply chain was desired, mills and refineries could potentially be included, but this would add extra complication and costs.

Questions for round table consideration:

- where should the cut-off line be for an initiative: the plantation, plantation plus mill; or the whole supply chain?

Outgrowers and smallholders

Many of the requirements of the initiatives described here, or a new definition of sustainability, would be considerably more difficult for a smallholder to implement and demonstrate compliance with than for a large plantation. A written definition of sustainability is likely to be inappropriate in many places where farmers are unaccustomed to reading and interpreting lengthy documents and to implementing formal management systems. Ways of facilitating their participation in developing appropriate local interpretations would be needed.

Assisting smallholders and outgrowers to comply with new requirements might involve providing summarised information and technical assistance with the implementation of practices. This may of course be implemented through existing programmes of training and assistance.

There are considerable economies of scale for monitoring compliance which would place smallholders at a disadvantage in comparison to larger estates. If an initiative is intended to apply to smallholders and outgrowers the means of doing so without excessive costs must be considered. Cost effective mechanisms for evaluating compliance (such as group schemes) would need to be developed.

If an initiative is not intended to apply to smallholders, it is important to ensure that they are not unfairly excluded from the market because of their non-participation in the initiative.

Questions for round table consideration:

- Should outgrowers and smallholders be included in an initiative?
- If so, how can it be ensured that they are not disadvantaged by the requirements?
- If not, what mechanisms are needed to ensure they are non excluded from the market?

4.2 Assessing compliance

As discussed in the preceding sections, different options are available for assessing whether any definition of sustainability is being implemented. The key point with these different options is that each is suited to different forms of communication. For example, first party assessment is useful for internal checks within a company, second party communication may be adequate for many business-to-business interactions, whereas independent, third party assessment is useful for communicating with a wide range of stakeholders. The different options also have other implications, including cost and how the initiative is governed.

Questions for round table consideration:

- what method of assessment of compliance is most appropriate?
- over what time scale would producers be expected to comply?

4.3 Claims and chain of custody

Producers, manufacturers and retailers may wish to make claims about the environmental and social standards under which their source oil palm plantations are managed.

Labelling of products would entail tracing the chain of custody; this means that palm oil produced in compliance with a definition of sustainability must be kept segregated from other sources of oil. This adds to the costs of transport and processing, particularly until a large number of producers comply with the requirements.

Labelling is currently not possible with environmental management systems certification such as ISO 14001. Labelling is unlikely to have wide credibility without third party verification. Because oil palm is used as an ingredient in other products and is not highly visible, on-product labelling may be considered less of a priority than for other products.

Questions for Round Table consideration:

- what kind of claims about plantation management are desirable?
- is labelling desirable?
- should chain of custody requirements be included in a definition of sustainability?
- at what level would a definition of sustainability apply (to industry at a national level? to individual companies that sign up to it?)
- is the extra cost of segregation justified?
- are there other reasons why segregation might be useful?

4.4 Governance structure

If a new initiative is adopted by the Round Table, it will be important to determine what the governance structure will be. This needs to address issues such as:

- who is responsible for managing the initiative?
- if a definition of sustainability is developed, who is allowed to update or change it?

- who is responsible for verifying compliance with any requirements of the initiative?
- who controls membership of a group claiming compliance with the initiative?
- what sort of controls on participation in the governance are required, or is it open to anyone?
- if compliance over time is permitted, how could this be controlled?

If an established certification scheme is adopted, these issues are integral to the scheme. It is important that the governance structure of the scheme is acceptable. If a new initiative were to be established, the governance structure would need to be determined.

Questions for Round Table:

- is a formal initiative with a defined governance structure appropriate?
- if yes, what sort of governance structure might be appropriate?

Appendix 1: Existing initiatives

International Federation of Organic Agriculture Movements (IFOAM)

Structure, scope and objectives

IFOAM deals with standard setting, promotion, and accreditation of organic certifiers worldwide. IFOAM developed from a network of organic schemes and farmers worldwide into a global standard setting and accreditation programme established in 1992. It functions as a federation of approximately 700 membership organisations including producers, NGOS, science organisations and certification bodies.

IFOAM has developed a standard (IFOAM Basic Standard for Production and Processing) and a set of accreditation procedures. The standards form the basis of standards developed by accredited organic certification bodies. Standards cover organic production in agriculture and horticulture; draft standards exist for forestry. Standards can be developed and applied worldwide. IFOAM standards also apply to processing of organic food.

IFOAM's key objectives are to provide information about, and help promote, organic agriculture. They maintain the basic standard and accreditation criteria for certification bodies. Accreditation is carried out by the closely related International Organic Accreditation Service (IOAS).

Requirements

IFOAM requirements, set out in the basic standard, are not designed to be applied directly, but to form the basis of standards developed by certification bodies. These may exceed the IFOAM requirements.

Requirements which are particularly relevant to the oil palm debate include:

- clearing of primary ecosystems is prohibited. This does not apply retrospectively (ie. land which was cleared recently and is subsequently planted could be certified).
- land preparation by burning is restricted to the minimum
- crop production must return nutrients and organic matter to the soil; measures must be taken to prevent soil erosion. Nutrients and fertility products must be applied in a way that protects soil, water and biodiversity.
- biological and cultural means are used to control pests and diseases and to maintain soil fertility
- operators must take measures to maintain and improve landscape and enhance biodiversity quality
- operations must not deplete water resources and must preserve water quality

- where production is based on violation of human rights or social justice it cannot be certified
- workers' rights must be respected, including no use of forced or involuntary labour; freedom to associate, the right to organise and bargain collectively; non-discrimination against employees.
- children employed by organic operators must be given educational opportunities.
- a conversion period is required between implementation of organic practices and achievement of certification

Costs

Assessments for organic certification depend on the fee charged by local certification bodies. These are typically \$4000-\$6000. Costs of certification for small farmers have been reduced in many instances by group certification, spreading the cost across the members of the group.

Additional costs may be incurred by the conversion to organic agricultural practices and through lower production levels. While the costs of inputs to organic agriculture are lower than conventional agriculture, labour costs are often higher.

Traceability

Certified organic products may be labelled, either with the IFOAM or the certification body logo (or both). Labelling requires traceability from plantation to final point of sale. Products containing less than 100% certified organic products can be labelled under specific percentage labelling rules.

Benefits and challenges for oil palm

Organic markets are expanding, currently comprising 3-8% of the European food market. Organic labelling offers a clear and largely trusted message to consumers.

Organic certification to IFOAM standards would pose several significant challenges for oil palm plantations. Plantation management needs to be able to demonstrate compliance with diversity, pest and disease management requirements. Additionally, the limitation of requirements related to clearance of primary habitats may not provide adequate guarantees of protection for those concerned about conservation of secondary or degraded habitats and the clearance of forests prior to purchase of land for oil palm plantations.

Social Accountability International (SAI)

Structure, scope and objectives

SAI developed following the establishment of the social accountability standard SA8000 in 1996. SAI policies are determined by an advisory board comprising 25 members, balanced between industry and non-industry representation. Members of the advisory board include trades unions, businesses, NGOs and government bodies. A large guidance committee provides input to the Advisory Board.

SAI assessments are carried out by accredited auditing bodies. SAI also carries out extensive training and technical assistance to companies seeking to comply with the standards as well as trades unions, investors and buyers.

SAI was developed with a focus on combating sweatshops and improving manufacturing and service industry workplaces; agriculture has been added to the scope more recently. SAI assessments have been carried out in all five continents, particularly in India, China and Brazil as well as Europe. The main objective of SAI is to establish a credible, transparent, verifiable and universal standard of social accountability and a means of applying and evaluating it.

Requirements

The main focus of SAI is workers' rights and social responsibility. Requirements are based on international workplace norms in the ILO Conventions and the UN's Universal Declaration on Human Rights. The standard follows an ISO management systems format, requiring a company to develop and implement its own policies of compliance with national labour legislation and a number of ILO conventions. However, compliance with the principles of Convention 110 (Plantations Convention, 1958) is not required.

Requirements which are relevant to the oil palm debate include:

- workers' rights, covered in detail including child labour, forced labour, health and safety, freedom of association and collective bargaining, discrimination, working hours and remuneration.

Costs

Costs are variable depending on fees charged by audit bodies.

Traceability

Assessment can take place at any stage along the supply chain. Products are often not labelled and chain of custody is not traced. However, product and company identification is permitted.

Benefits and challenges for oil palm

The SAI standard covers some of the social issues identified in oil palm plantations. Assessment would provide third party verification of employment standards.

Social issues beyond strict employment requirements are not covered by the standard. As a management system standard SAI would need adaptation to apply to smallholders (eg. in an outgrower situation).

Sustainable Agriculture Network (SAN)

Structure, scope and objectives

SAN⁹ is a coalition of conservation NGOs working in the tropics, coordinated by the Rainforest Alliance which serves as a secretariat. Policy and direction is set by the member organisations.

SAN has developed a generic standard for sustainable agriculture (available at www.rainforestalliance.org). Currently standards have been developed for a range of crops including coffee, bananas and citrus fruits. Standards for oil palm are under consideration. The network is mainly focused on Latin America but expects to start working in Asia and Africa within 5 years.

SAN aims to improve social and environmental conditions in tropical agriculture through conservation certification. It aims to do this by raising consciousness among consumers as well as working with producers on improved agricultural methods. SAN partners carry out certification assessments and provide technical assistance to farmers to help them implement best management practices and tackle problems.

Requirements

The SAN generic standard is set out around nine principles. Specific standards are then developed for each crop or product type. Requirements focus at the farm level and stop at the farm gate. On-site processing may be included.

Requirements which are particularly relevant to the oil palm debate include:

- degradation, destruction or damage to existing ecosystems by new and expanding farms is prohibited. Deforestation is specifically prohibited. This does not apply retrospectively.
- the use of fire to clear land or control unwanted vegetation is prohibited
- new farms must be located on lands suitable for the proposed crop
- farm management practices must promote conservation and recuperation of soil fertility, organic matter and biological activity. A soil conservation plan is required.
- integrated pest management is required, minimising agrochemical applications.
- areas not suitable for cultivation should be reforested or restored to a natural state. Ecosystems must be protected, conserved and recuperated.
- Water resources must be protected and contamination avoided.
- legal ownership or long term use rights of the land must be proved

⁹ previously the Conservation Agriculture Network

- the interests of local communities must be considered during planning and development stages and the company should contribute to the local economy.
- Communities adjacent must have priority for employment opportunities and training.
- workers' rights requirements include hiring practices, non-discrimination and wages; children's rights; rights to organise and freedom of expression, and occupational health and safety.
- welfare provisions cover standards of living for workers and families, access to medical services, education and training opportunities.

Costs

SAN attempts to minimise the cost of assessments by working through a network of local NGOs. Assessment costs depend on the fee charged by the local body. SAN recognises the barrier that the cost of certification can create for small farms and seeks ways to underwrite the costs for disadvantaged farmers. A group certification protocol is being developed.

Traceability

SAN offer the use of a logo for on-product labelling although currently use of the certification is largely business-to-business. Chain of custody assessments, necessary for use of the logo, can be provided.

Benefits and challenges for oil palm

The SAN generic standard focuses on environmental and social aspects of sustainability. It does not prohibit the use of agrochemicals but requires responsible management to be demonstrated. Working through local partner NGOs can help keep costs down.

SAN has not yet developed its oil palm programme and does not yet have a strong presence in Asia or Africa. The SAN programme and its logo are not yet well known in European markets or among other NGOs. It is not clear how the requirements of the standard would relate to clearance of forests prior to purchase of land for oil palm plantations: treatment of this issues would be determined in the development of a specific oil palm standard.

Forest Stewardship Council (FSC)

Structure, scope and objectives

FSC is an international non-profit organisation founded in 1993. It is a membership organisation, open to all who are involved in forestry and forest products, including the timber trade, members of environmental and social NGOs, indigenous people's groups and certification organisations. FSC's key objectives are to support environmentally appropriate, socially beneficial and economically viable management of the world's forests, through the certification of forests which comply with their standards.

FSC has developed a generic international standard (the Principles and Criteria for Forest Stewardship); this is adapted at national or regional level by national initiatives (or in their absence certification bodies). Requirements are focused at the forest management unit level and apply only to (forest) management, not subsequent processing.

FSC also acts as an accreditation body. Accredited certification bodies carry out certification assessments. FSC certification applies to all types of forest management, including natural forest and plantations, and the products which derive from those forests including timber and non-timber products.

Requirements

Oil palm has not yet been assessed under the FSC scheme and it is not yet clear that FSC plans to go down this path. If applied to oil palm plantations it would be necessary to develop a local interpretation of the standard which addressed the issues specific to oil palm.

Requirements which are particularly relevant to the oil palm debate include:

- plantations established in areas of natural forest after November 1994 normally do not qualify for certification.
- High conservation value forests as defined in the Principles and Criteria must be identified, managed and monitored. The conservation values must be maintained or enhanced.
- soil structure, fertility and biological activity must be maintained or improved. The choice of species must not result in long term soil degradation.
- measures must be taken to minimize outbreaks of pests diseases and fire, including IPM measures.
- biological diversity must be maintained or enhanced. Areas must be set aside for biodiversity conservation.
- water quality, quantity and stream patterns must be maintained.
- there must be clear evidence of long term use rights to the land.

- communities and indigenous peoples' legal or customary rights to own, use and manage their lands must be respected.
- appropriate mechanisms must be employed for resolving grievances and for providing fair compensation.
- local communities should be given opportunities for training, employment and services; local processing promoted.
- health and safety laws and workers' rights to organise and negotiate must be respected.
- planning and operations must incorporate the results of evaluations of social impacts

Costs

Assessments are carried out by certification bodies accredited by the FSC. Approximate costs of assessment range from \$1000 - \$20,000 depending on size and complexity of the assessment and issues.

Traceability

Products derived from certified forests (plantations) can be labelled. Chain of custody certification is required. Percentage based labelling of products currently allows wood products which contain less than 100% FSC certified timber to carry a label, under certain rules. It would remain to be seen whether percentage labelling of palm oil would be a possibility.

Benefits and challenges for oil palm

FSC standards cover a large number of the issues raised about oil palm plantations. Standard setting processes provide a forum for discussion and consensus-building on an agreed definition of sustainability. Chain of custody assessments allowing labelling facilitate direct communication with consumers.

As the FSC does not have a specific policy on certification of oil palm, this would need to be clarified. The retrospective prohibition on certification of plantations established on land cleared of forest since November 1994 might exclude large areas of oil palm plantation from participation.

Environmental management systems standard (ISO 14001)

Structure, scope and objectives

ISO 14001 is a standard setting out the elements of an environmental management system by which means companies can address their environmental impacts. ISO 14001 was developed by the International Organization for Standardisation.

ISO 14001 is designed to be applicable to all types and sizes of organisations. Organizations set their own environmental policy and procedures for implementing, monitoring and reviewing it. Where ISO 14001 is linked to defined best management practices, it can offer a tool for incorporating them into management and checking on implementation. ISO 14001 has been applied to plantation crops and is currently being implemented, linked to internal environmental and social guidelines, in some oil palm plantations.

Requirements

ISO 14001 requires organisations to assess their environmental impacts and develop an environmental policy to address them. The standard itself relates more to *how* the policy is implemented than *what* the policy contains. The only two specific requirements of relevance are:

- the policy includes a commitment to comply with relevant environmental legislation and regulations (it does not actually require compliance)
- the policy includes a commitment to prevention of pollution

Costs

Assessments of compliance are carried out by certification bodies accredited by national accreditation services.

Traceability

ISO 14001 certification applies to an organisation rather than the products of that organisation. Product labelling is not permitted. In the absence of product labelling, chain of custody is not normally traced.

Benefits and challenges for oil palm

ISO 14001 provides a framework for organisations to implement their environmental policies and third party verification that they are doing so. As a management system standard it allows more flexibility in the practices applied and the speed of implementation.

ISO 14001 does not provide verification that specific performance requirements have been applied, unless linked to a code of practice which defines the performance requirements. It does not permit product labelling.

Euro-Retailer Produce Working Group Good Agricultural Practice (EUREPGAP)

Structure, scope and objectives

EUREPGAP was created by a consortium of food retailers, producers and traders. The aim is to produce unified certification standards: a protocol exists for fruit and vegetable production which covers food safety, environmental issues and social standards. Certification bodies have been contracted to provide assessments against the EUREPGAP Protocol for Fresh Fruit and Vegetables. The scheme could potentially be extended to include oil palm.

The main focus of the protocol is on ensuring food safety and considerable attention is given to management of chemicals, fertilisers and pesticides. Less focus is given to environmental and social impacts.

Requirements

Requirements are set out in the EUREPGAP protocol. The protocol divides the standard into issues which are required and those which are encouraged. Only the requirements are covered here. Relevant requirements are:

- all growers must demonstrate their compliance with national or international law.
- cultivation techniques that minimise soil erosion must be adopted
- fertiliser application must meet the needs of the crops as well as maintaining soil fertility
- the protocol contains detailed requirements about chemical use: protection of crops against pests, diseases and weeds must use the minimum pesticide input; wherever possible IPM should be used. Non-chemical treatments are preferred.
- employment conditions must comply with local and national regulations
- on-site living quarters must be habitable and have basic services and facilities
- farms to aim to enhance environmental biodiversity; this could be satisfied through a regional activity rather than individual one.

Costs

No information was available about costs of implementation and auditing.

Traceability

EUREPGAP aims to provide reassurances to consumers about the safety of the foods which they purchase, as well as environmental and social standards under which it was produced. In order to do so, food traceability must be assessed.

Benefits and challenges for oil palm

EUREPGAP requirements are generic, allowing it to be adapted for use in any country and with any crop. The EUREPGAP certification protocols were designed to be used for fruit and vegetables but could potentially be adapted for oil palm plantations.

EUREPGAP has the advantage of bringing together food safety and environmental/social requirements; however, it does not cover many of the social and environmental issues regarded as important in the debate about oil palm plantations. In addition the large number of formal plans, records and documentation required would prove challenging for smallholders.

Migros Criteria for Oil Palm Plantations

Structure, scope and objectives

MIGROS is the largest supermarket chain in Switzerland and has a strong commitment to high standards of environmental and social management. The company wanted to address the impacts of plantations supplying it with palm oil. Working in co-operation with WWF Switzerland, Migros developed its Criteria for Oil Palm Plantations, published in February 2002. The MIGROS criteria set out a generic baseline defining the standards MIGROS wishes suppliers to meet.

The criteria are generic, but also provide guidance for interpretation at the local level. This is done prior to an audit by an expert team with inputs invited from interested parties including environmental and social NGOs, local and national government and industry representatives. The team is usually comprised of the audit team leader, technical, environmental and social specialists. Local interpretations usually refer to local best management practice guidelines where available.

Requirements

The Migros Criteria include a number of specific requirements of relevance to the round table (discussed below). In addition, plantation managers are required to carry out and incorporate results of environmental and social impact assessment, as well as complying with ILO conventions.

Requirements which are particularly relevant to the oil palm debate include:

- plantation management must comply with all relevant laws
- the plantation cannot be located on land which was deforested after 1994 and the use of land for oil palm must not be leading to increased pressure to clear forest for other land uses. (N.B. this retrospectivity may be removed from the criteria.)
- soil fertility and soil erosion should be controlled by implementing national or international best practice guidelines. Water quality and quantity should be maintained.
- chemical use in the plantation is minimised, planned and controlled. Organic management is preferred.
- a conservation plan is implemented and results monitored, protecting rare, threatened and endangered species as well as maximising biodiversity of the plantation.
- the environmental impact assessment should cover impacts on soil, water, air, biodiversity and people.
- the plantation management must have rights to use the land and must not have a negative impact on the legal or customary rights of other users.
- there is a documented system for dealing with complaints and grievances.

- the social impact assessment should cover issues such as access to land, local changes in income, migration, food availability, health and cultural impacts of workers, communities and outgrowers. Results of the assessment must be incorporated into planning and implemented where appropriate.
- workers' health and safety (including contractors) is protected, child labour is not used and pay and conditions of workers meet ILO guidelines.

Costs

Migros requires suppliers to commit to full compliance over time and to arrange an independent third party audit of their plantation. Audit specialists must be approved by Migros. Costs include the cost of developing a local interpretation of the criteria (approximately GBP £2000-5000) and independent audit (GBP £5000-6000). Plantation management (or suppliers) are responsible for funding the independent audit. Migros currently pay a bonus of US\$150 per tonne (30-50% above the market price) for palm oil from assessed and compliant plantations. An additional US\$50 per tonne is paid at the refinery in Switzerland for logistical costs.

Traceability

The Migros Criteria require a chain of custody mechanism to ensure palm oil comes from the identified plantation. Where chain of custody certification already exists (eg. for organic certification) this is used. Legal documentation reliably identifying source can also be accepted.

Benefits and challenges for oil palm

Migros, in co-operation with WWF Switzerland, has developed a set of criteria and a process for evaluating compliance with them which fulfil their commitments to sustainability. The criteria cover many of the issues identified as priorities for the oil palm round table and allows for independent verification of implementation. As a second party audit mechanism, Migros decides who is acceptable as an auditor.

This is not a certification scheme. The local interpretation of the criteria is carried out by a team representing a range of expertise, but does not try to mimic the process of developing a national standard, which requires wider consultation and balanced input of views. This means development of a local interpretation is quicker and cheaper than a full national standard, but may not have the same widespread acceptability.

Rabobank criteria for financing palm oil plantations

Structure, scope and objectives

Rabobank is a financial services provider for Food and Agribusiness. The bank provides financing for the development and operation of palm oil plantations in Indonesia. In order to prevent the bank being associated with poor management of oil palm plantations, Rabobank developed a set of criteria to determine the conditions under which it would finance palm oil plantations.

The criteria set environmental and social conditions on Rabobank's involvement in palm oil plantations which apply to both the development of new plantations and management of existing ones. In addition, Rabobank states that it looks at the manner of cultivation, social aspects and ecological sustainability according to guidelines from the World Bank and International Finance Corporation (IFC).

Rabobank asks customers to provide periodic environmental and social impact reports. Where doubts exist about compliance the bank can commission independent experts to assess compliance. Prior to approving a request for financing a Rabobank employee assesses environmental impacts of the proposed project. Agencies such as CIRAD (Centre de Cooperation Internationale en Recherche Agronomique pour le Developpement) are also used for monitoring. If clients do not meet the criteria, Rabobank can terminate their financing of a project.

Requirements

Rabobank's criteria were developed for the Indonesian palm oil industry. Relevant requirements include:

- compliance with Indonesian law and applicable international regulations.
- burning for plantation establishment is prohibited
- primary forests may not be cut down for plantation establishment; secondary forests with ecological and cultural value are respected. Clients must not be involved in illegal logging and/or commercial logging of primary or High Conservation Value Forests.
- investment moratorium of at least 3 years if primary forest or HCV forest is removed.
- wishes and interests of the local population must be taken into account.
- plantations linked to 'plasma programmes' (smallholder programmes) are preferred; fruits are bought from smallholders at a fair price set by the government.
- environmental and social effect reports (Amdal reports) are used for decision-making on financing plantations.

Costs

The criteria are largely implemented through existing processes, keeping costs to a minimum. The criteria are discussed with potential and actual clients, checks are made of clients' operations during routine visits and clients are requested to send yearly environmental and social reports. CIRAD provides some independent monitoring.

Traceability

Because the criteria are designed to inform investment decisions, there is no provision for traceability of products.

Benefits and challenges for oil palm

Rabobank's criteria are specific to financial backing for oil palm projects in Indonesia. The criteria were developed based on consultation with internal and external experts; they were also discussed with a number of NGOs. The approach is relatively low-cost and designed for internal assurance and risk management; it may not provide adequate assurances for external stakeholders. Some NGOs dispute the adequacy of the 'plasma programme' as a fair means of involving smallholders.

Financial services to oil palm plantation companies; proposed screening of potential clients by financial institutions

Structure, scope and objectives

In 2001 four major Dutch commercial banks – ABN AMRO Bank, Rabobank, ING Bank and Fortis Bank – decided to stop or restrict new financing of oil palm plantation development in Indonesia unless the client adheres to a set of four basic principles:

- not to be involved in burning forestland
- not to clear tropical rainforest
- to respect the rights and wishes of local communities
- to respect Indonesia's law and relevant international conventions.

Rabobank's criteria for financing oil palm plantations, although predating this commitment, include these requirements. In 2002, AIDEnvironment and Profundo elaborated these four principles through a series of criteria for screening potential clients by financial institutions. The document suggests that compliance with the criteria should be evaluated by an external, independent auditor and that a system to ensure continued compliance with the criteria is developed. However, it is acknowledged that various financial services will require different approaches.

It is not clear to what extent the proposed screening criteria and monitoring requirements have been agreed or implemented by the banks.

Requirements

The screening criteria were developed specifically for Indonesian oil palm plantations and are focused on the issues identified in this sector. Requirements of specific relevance to the round table include:

- respect for all applicable laws
- the organisation does not contribute to conversion of High Conservation Value Forests (HCVF). Plantations established in areas converted from natural forests within 3-5 years are not eligible for financing. Biodiversity in the concession area is conserved.
- the company does not practise open burning for land clearing.
- soil erosion is minimised during operations and water resources are protected.
- chemical use is minimised, planned and controlled. Emissions from processing facilities do not affect water quality.
- the company respects the rights and wishes of local communities; financing should not be provided if there is a history of social conflict. Local communities with legal or customary tenure or use rights maintain control of land use.

- a social impact assessment is carried out.
- the rights of workers to organise and voluntarily negotiate are guaranteed.

Costs

The document suggests that compliance of the banks' clients with the policy should be assessed by an independent auditor. Dialogue on compliance between NGOs and some banks continues.

Traceability

Because the criteria are designed to inform investment decisions, there is no provision for traceability of products.

Benefits and challenges for oil palm

The screening criteria are specifically designed for use by commercial and non-commercial financial institutions when deciding whether they should provide financing for oil palm plantations. They have been developed with a number of environmental and social NGOs and apply specifically to oil palm in Indonesia.

The criteria could potentially be used more widely by investors. However, the document makes clear that these are minimum requirements for responsible investments; they do not seek to identify 'sustainable' plantation management. For more comprehensive standards and auditing the banks are referred to the Migros Criteria for Oil Palm Plantations.

Unilever Sustainable Palm Oil – Good Agricultural Practice Guidelines

Structure, scope and objectives

Unilever developed its four principles of sustainable agriculture and 10 sustainable agriculture indicators following a workshop in 1998. The Sustainable Oil Palm Good Agricultural Practice (GAP) Guidelines were developed on the basis of these principles and indicators and published in September 2002.

The guidelines were developed using research and cultivation experience in Malaysia, Indonesia and West Africa. They were produced in consultation with scientists and specialists, including members of the Unilever Sustainable Agriculture Advisory Board, which comprises individuals, specialists in agricultural practices and representatives of NGOs.

Unilever has implemented its GAP guidelines through pilot projects in its oil palm plantations in Malaysia (now sold) and Ghana, though the development and incorporation of local indicators into plantation management practices. The impacts of the implementation in the plantation are monitored internally.

Requirements

The palm oil GAP guidelines are arranged under 10 indicators of sustainability. Within each good practices are defined and potential areas for improvement outlined. Requirements of specific relevance to the oil palm round table include:

- legal compliance is specifically mentioned in the guidelines for workers' conditions (see below) and transactions.
- extension of plantations into areas of 'primary' forest is never acceptable. Extension into degraded lands or land previously under other crops is preferred over extension into (partially degraded) forests or wetlands.
- Before extension into new areas a full environmental impacts assessment must be carried out and results followed.
- During clearing burning should be avoided unless serious pest and disease problems require it. Periods of no ground cover should be minimised.
- practices to maintain soil fertility and soil nutrients, and to minimise soil loss, are described in detail.
- use of pesticides should be minimised though use of integrated pest management; workers applying pesticides must be properly trained and equipped.
- biodiversity within the plantation should be conserved by providing appropriate habitat and adopting appropriate cultural practices.

- Efficient use of renewable energy resources (including the use of shell and fibre as fuel) should be targeted, while greenhouse gas and polluting gas emissions are minimised.
- the volume of water used in irrigation and extraction from sustainable sources need to be considered. Water use in the factory should be minimised. output from effluent ponds should be monitored and contamination of streams/groundwater avoided.
- competitive local goods and services should be used where practical; maximum employment opportunities should be provided for local people.
- legislation on employment benefits and conditions, child labour and social security should be complied with. Where there is no legislation in-house standards should be developed.
- housing, medical, education al and welfare amenities should be provided to national standards or above. Health and welfare programmes should include clean water provision, vaccination programmes, HIV awareness, nutrition information and education on having smaller families.
- contracts with suppliers should be fair; payments and supplies should be on time and at the agreed price.

Costs

Unilever has developed and implemented its guidelines in-house and aims to incorporate them into plantation management practices. External monitoring is not used and the guidelines are not intended to form the basis of a certification scheme. These factors reduce cost of implementation.

Traceability

Palm oil from Unilever plantations implementing the guidelines is not segregated from other palm oil. Currently segregation is considered too expensive and complicated.

Benefits and challenges for oil palm

The Unilever GAP guidelines are specifically focused on the issues facing the palm oil industry and have the benefit of experience of implementation through Unilever's plantations in Ghana (and Malaysia). Inputs to the guidelines have been sought from staff and external specialists. The guidelines cover many of the issues (especially environmental) which have been identified as of concern to the round table.

The guidelines could potentially be used more widely (with agreement from Unilever). Unilever have also produced a detailed technical guide to the methodologies recommended for the measurement of sustainability indicators as well as a guide to good agricultural practices for small holder palm oil farmers. Cost-effective verification and monitoring systems might be needed for more general application.

Pacific Rim Palm Oil Environmental and Social Handbook

Structure, scope and objectives

Pacific Rim Palm Oil (PRPOL) is an independent organisation with backing of the CDC (formerly Commonwealth Development Corporation) which owns three plantations in Papua New Guinea and two in Indonesia. PRPOL's Environmental and Social handbook, published in September 2002 provides a summary of PRPOL's approach to environmental and social commitments and activities up to December 2001.

The Handbook applies to PRPOL's plantations in Papua New Guinea and Indonesia. PRPOL's plantations are generally co-owned. The handbook sets out the business principles under which PRPOL will invest in businesses under four policies, as well as specific commitments to management practices in the plantations under six separate issue headings. In addition, the company has developed a separate set of detailed social standards covering living and working conditions of employees.

PRPOL is implementing ISO 14000 in its plantations. The commitments made in the environmental and social handbook should be implemented through standards operating procedures, management audits, staff training, education and incentives as well as the environmental management system.

Requirements

The points below describe policy and management commitments described in the handbook which are of particular relevance to the oil palm round table:

- it is PRPOL's policy to comply with all applicable UK and EC laws and those of other countries where they operate.
- areas of natural forest that could regenerate over time, specialised ecosystems and vegetation serving important environmental functions are not developed.
- development is limited to soils that are sufficiently fertile and have the appropriate structure for oil palm.
- land clearing is carried out in small areas to minimise soil erosion on bare ground.
- PRPOL takes measures to maintain or improve soil structure, fertility and biological activity.
- PRPOL seeks to limit the types and amounts of pesticides it uses, and maintains written procedures for handling and storage. Alternatives are used where viable.
- habitats will be set aside and managed as a network of conservation areas throughout the plantations. Approximately 15% of pre-existing vegetation will be set aside.

- air pollution is minimised through boiler maintenance and using EFB as mulch.
- all watercourses and wetlands will have buffer zones. Effluent ponds are used to reduce the toxicity of the mill effluent to below legal levels. Weekly and monthly tests are taken to ensure effluent and water meet national guidelines.
- plantation management aims not to threaten or diminish resources or tenure rights of indigenous peoples. Local communities with established legal or customary tenure or use rights maintain control over their land. PRPOL will have clear evidence of long-term land use rights.
- the company aims to maintain or enhance the long term social and economic well-being of employees and local communities. Employment opportunities are offered to members of local communities where possible.
- appropriate mechanisms will be used to resolve disputes over tenure claims and use rights.
- social impacts are assessed and monitored. The establishment of alternative businesses is encouraged.
- PRPOL does not invest in businesses which employ forced labour or child labour; wages should meet or exceed industry or legal minima and be sufficient to meet basic needs; employees should be treated fairly.
- health and safety standards meet national requirements as a minimum.
- rights of workers to organise and negotiate are guaranteed as outlined in ILO conventions (87 and 98).
- detailed standards for living and working conditions cover housing and basic infrastructure, nutrition, health, education, employment and training of employee and their families

Costs

No information available.

Traceability

No information available.

Benefits and challenges for oil palm

As with the Unilever GAP guidelines, the PRPOL Environmental and Social handbook's commitments are specifically focused on the issues facing the palm oil industry. PRPOL have the benefit of experience of implementation of their commitments in their five plantations in conjunction with ISO 14001. The handbook covers most of the issues which were identified in Paper 1. Individual plantation companies report

on progress towards achieving the social living and working standards to the PRPOL Board annually.

The handbook and social standards could potentially as a basis for development of a wider initiatives (with agreement from PRPOL). Cost-effective verification and monitoring systems might be needed for more general application.

Environmental Guide for the Oil Palm Agro-industry Subsector (Fedepalma/Ministry of Environment, Colombia)

Structure, scope and objectives

The Environmental Guide was produced by the Colombian National Federation of Oil Palm Growers (Fedepalma) with support from the Colombian government in May 2002. It provides a background to the relevant national legislation, a description of the main activities involved in oil palm cultivation (including land preparation, nursery practice, plantation management, replanting and management of natural areas) and guidelines for identifying and dealing with environmental impacts of plantations and mills.

The objectives of the guide are to help oil palm producers in Colombia improve their environmental management and implement clean technologies in their plantations. (Environmental guides are also being produced for other agro-industrial sectors in Colombia.)

Requirements

The environmental guide sets out guidelines (rather than 'requirements') for each activity which may have environmental (and/or some social) impacts. It suggests measures of prevention, mitigation and monitoring for each impact. The main guidelines of relevance to the debate are:

- legal requirements – the guide provides an outline of the legal framework and permits necessary for various activities.
- Areas of ecological importance should be maintained without alteration. Where possible, primary forest should not be altered in any way.
- Burning practices should be eliminated.
- Land preparation should take into account soil qualities.
- Organic agriculture is favoured and use of synthetic fertilizers should be minimised.
- In existing plantations measures should be taken to prevent and mitigate soil erosion and compaction.
- Clean methods of pest control are preferred and research into integrated pest management and biological control promoted. Clear procedures should be established for the management of chemicals which minimise residues and environment and health risks.
- Natural areas within the area of influence of the plantation should be maintained and biodiversity conserved.
- Atmospheric emissions should be controlled to avoid impacts on air quality.

- Water resources should be efficiently used and quality and quantity maintained. Residual waters should be adequately treated and should not be discharged into water bodies.
- The work environment should encourage respect, equity and responsibility.

Costs

The costs of implementation and evaluation were not available.

Traceability

The Environmental guide aims to improve environmental performance in the oil palm sector generally in Colombia. It does not provide guidance on traceability mechanisms for individual plantations complying with the guidelines.

Benefits and challenges for oil palm

Fedepalma's Environmental Guide provides a useful structure for guidelines to identifying, preventing, mitigating and evaluating environmental impacts specifically in oil palm. Less emphasis is placed on social issues. Some guidance is also given on monitoring and evaluation, which is aimed at fulfilling requirements for the Colombian environmental authorities.

Similar guidelines could be produced for other geographical areas. In order to be used as a tool for defining and verifying good management, monitoring and evaluation mechanisms would be needed.

Malaysian Palm Oil Association – proposed sustainable environmental charter

Structure, scope and objectives

The proposed sustainable environmental charter is aimed at a different level from the other initiatives described, and for that reason is not included in Table 1. The charter aims to set out the responsibilities for safeguarding the environment which members of the MPOA would sign up to. The requirements of the charter need more detailed development by individual companies before being implemented in practice.

According to the draft presented in February 2003¹⁰, members of the MPOA would agree to:

- establish responsibility for environmental affairs within their organisations and carry out appropriate and routine assessment and reporting and auditing procedures on such matters;
- undertake or commission an assessment of the environmental impacts of any new developments and major changes in land use;
- adhere to all relevant environmental legislation of the country and by example encourage and promote the adoption of sound environmental and social policies within the organisation and the country;
- operate with due regard for the welfare, health and safety of employees, the local community and the wider public;
- not fell or damage any high-conservation value or primary tropical rainforest, natural ecosystem or area of unique scientific, historic, cultural or religious interest and not undertake developments which would destroy habitats important for endangered plant or animal species;
- follow principles of good husbandry and adopt best management practices established in the Industry;
- minimise production of waste materials and emissions and take steps to minimise the use of chemicals and fossil fuel inputs and prevent pollution of soils, watercourses, the seas and the atmosphere.

The MPOA has proposed to carry out a survey of best management practices in the industry and to compile and document them for use by industry. The proposed charter would also commit members to adoption of best management practices established in the industry. The MPOA suggested at the Seminar that member

¹⁰ presented at the MPOA Seminar on good Agricultural Practice and Food Safety, 24 & 25 February 2003

organisations may in future be encouraged to go for a voluntary certification scheme on a phased BMP approach.