

PRINCIPLES AND CRITERIA OF THE RSPO

General Framework and Scope of the RSPO



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First Latin American Meeting of
the Roundtable on Sustainable
Palm Oil, RSPO

Cartagena, October 16 -17, 2008.



Thank you, ladies and gentlemen.

I am going to take you through a presentation that describes the history of the RSPO and some of the principles behind it. Dr. Rao will then follow on, with a more technical presentation about the content of the principles and criteria. I am going to go through this quickly. It is a general presentation that was prepared for us by a communications company so that you know what palm oil is and I don't have to dwell on that. We will talk about the need for sustainable palm oil, and then about the RSPO, where we are today and where we are heading.

This is the earliest literary reference to palm oil that we could find: "it has the scent of violets, the taste of olive oil and a color which tinges food like saffron but is more attractive." Apparently, Mr. Mosto discovered palm oil in West Africa in the fifteenth century.

Palm oil is used in so many products that I have never seen an exhaustive list. Of course we should not forget the fact that the main use for palm oil is cooking. Two billion people across the world use palm oil as cooking oil, but it is used in many food and non-food products. It is an edible oil, a triglyceride that can be broken down into fatty acid molecules and that can be converted into fatty alcohols which can in turn be made into surfactants used in many detergent products. It's used in soap, in shampoo, in lipstick, and as fine oil. It's used for making margarine and many, many other food products.



Oil palm only grows in a band that stretches twenty degrees north and south of the equator. It originates from West Africa, in countries like Ghana, the Ivory Coast and the Congo, and was brought to Southeast Asia in the early 1930s. It is the world's best-selling plant oil, with soybean oil a close second.

This is a picture of some of the products that you can find in supermarkets. Today half of packaged supermarket products use palm oil in some shape or form (Figure 1).



Figure 1. Today half of packaged supermarket products use palm oil in some shape or form.

Currently, world palm oil production is approximately 40 million tons. This graph ends in 2006; in 2007, world production was 38 million tons, having started, as you can see, from a very low base in 1966. Of the total world market for edible oils, palm oil has 30% and soy, as I mentioned, is very close with 29%. Then come rapeseed, sunflower and many other oils (Figure 2).

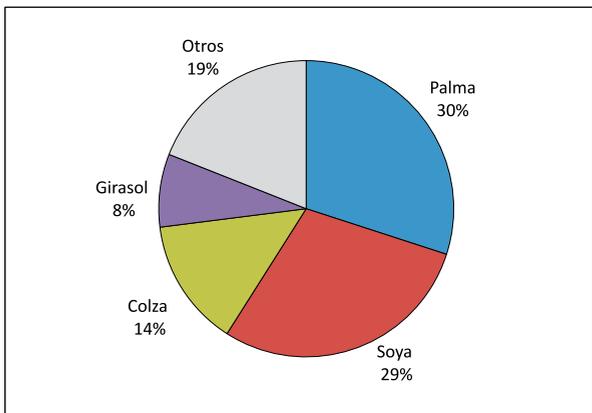


Figure 2 Palm oil is now the world's most produced vegetable oil.

This is the area planted with oil palm. In 2007 it was estimated at 10.5 million hectares, but these figures are not very reliable, given that not every country has good statistical data. This graph also shows that, although Malaysia occupied first place for a long period of time, Indonesia has now overtaken it in terms of total cultivated area. Colombia, of course, is in the band labeled "others" (Figure 3).

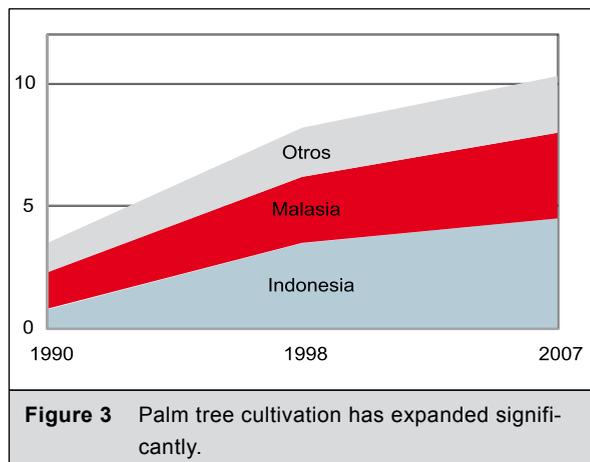
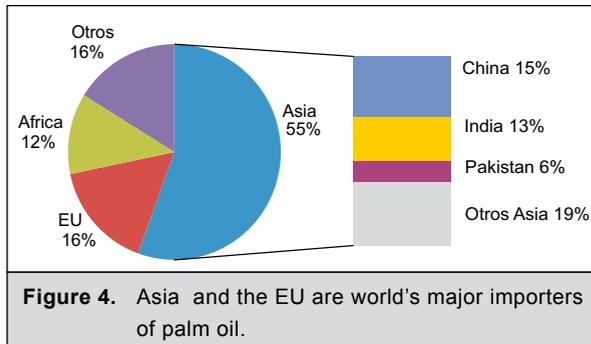


Figure 3 Palm tree cultivation has expanded significantly.

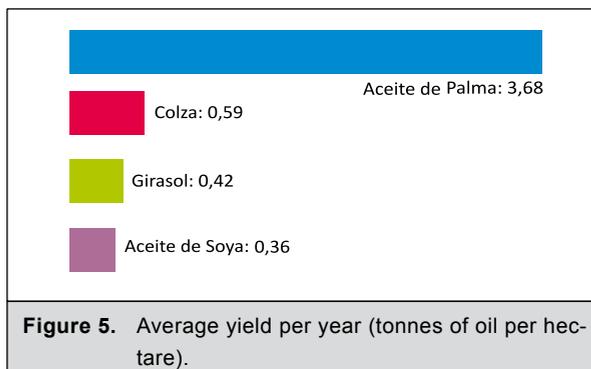
44% of the world's palm oil comes from Indonesia and 41% comes from Malaysia. It is important to note that Indonesia still has expansion plans and still has land available for new oil palm planting. Malaysia, on the other hand, has stable production and is no longer developing new oil palm plantations. If Malaysia wants to increase its production, it will have to do so by turning coconut plantations or rubber plantations over to oil palm.

The major importers of palm oil are Asia and Europe. Of course, Asia has mostly domestic production and domestic use. In the EU, all palm oil is all imported. In Africa, palm oil is mostly produced domestically for domestic use. Here you can see how use is distributed across Asia. China is the largest user of palm oil and its demand is still growing; India follows with 13% (Figure 4).

The oil palm is a highly efficient plant (not a tree), with one of the highest efficiencies for photosynthesis ever discovered. The difference in yield between oil palm and other edible oils is significant. Global average yield for palm oil is approximately 3.6 tons of oil per hectare per year. Average yield in Indonesia is slightly lower, while average yield in Malaysia is slightly higher. Yet the



best commercial plantations in both countries already yield 5 to 6 tons of oil per hectare per year. Some experimental plots even have yields of 10 tons of oil per hectare per year and above, meaning 45 tons of fresh fruit bunch and an oil extraction rate of approximately 25%. So there is an enormous potential for yield improvement. Here are the numbers (Figure 5).



If oil palm is compared with rapeseed, sunflower or soybeans, its efficiency can be seen immediately. There is a difference of a factor of between 7 and 10 in yield per hectare per year between oil palm and the other edible oils. Incidentally, the yields in West Africa are lower because West Africa has a dry season of about four months. Hence, if irrigation is not used, and it is generally not for oil palm, lower yields result.

Oil palm is a crop that provides employment for many people, as the Minister emphasized this morning. There's no mechanization in the harvesting of the fruit bunches. This must all be performed manually and, in rough terms, one could say that on average one worker is needed per hectare of oil palm. More than one million people work on oil palm plantations, more than 3 million smallholders make their living from growing and producing palm oil, and of course many families depend on palm oil for their incomes.

There are, however, problems: social problems and environmental problems. The boom in palm oil expansion that occurred in Indonesia in the 1970s and 1980s has led to many land conflicts. Government allocation of lands for palm oil concessions was carried out without considering local people, indigenous peoples and others. In combination with a poor registration system for land rights, land-use rights, property rights and traditional land-use rights, this has led to many conflicts between local communities and palm oil companies. At the moment there are 500 registered land-use conflicts in Indonesia alone.

Many of the early plantations were established in remote areas. There was little concern for labor conditions and the welfare of the people who worked on the plantations. Many countries have subsequently intervened, passing legislation which determines exactly what is required in terms of housing, minimum wages, labor circumstances, personal protection equipment when using pesticides, and other aspects.

Smallholders are usually not well treated. It is often believed that they cannot be as effective and efficient as the large industrial estates in terms of yield, but there are quite a number of examples around which prove that that is not the case. I have visited companies in Indonesia which get 40% of their fresh fruit bunches from smallholders whose yields vary between 5 and 5.5 tons of oil per hectare per year. However, on average, smallholder yield in Indonesia is between 1 and 2 tons, well below the global average of 3.6.

There are environmental issues in oil palm cultivation as well. Since it only grows in a band stretching twenty degrees north and south of the equator, oil palm always replaces forests. Where this happens in forests with particularly high biodiversity, the so-called High Conservation Value (HCV) forests, it becomes a problem precisely because palm oil production is growing so rapidly.

The other element that has created more attention and more concern in the region in recent years is that, if forests are cut down or burnt in order to clear the land for the development of plantations, massive quantities of greenhouse gases are emitted. This is also certainly the case when peat land is drained to for development. As a result, Indonesia is now number three. That is, it



is the third country in the world in terms of greenhouse gas emissions from deforestation alone.

It is this combination of unintended, negative actions that led to the creation of the Roundtable on Sustainable Palm Oil. The first meeting took place in 2000 in London, convened by the World Wildlife Fund with a group of about 20 to 25 companies interested in discussing the issues with it. Eventually seven companies and organizations put up the money to start the process of creating the Roundtable on Sustainable Palm Oil. We meant it to be a multi-stakeholder group, as I mentioned it in my opening address this morning, with the objective of promoting the growth and use of sustainable oil palm products through global standards.

Among the principles that we developed later are that the rights of landowners, farm-workers, smallholders and their families should be respected, and that no primary forests or High Conservation Value areas should be sacrificed for new oil palm plantations.

As of today –well, I didn't check the latest count this morning but rather 10 days ago– the number of RSPO members is 253. Here you can see how this breaks down into the seven different membership sectors –growers, processors, social NGOs, environmental NGOs, consumer goods manufacturers, retailers, and banks– and a separate category of affiliate members.

Only companies and organizations that have a direct stake in the value chain of palm oil can become ordinary members. All others can become affiliate members, which means that they pay a modest membership fee but they do not have a voting rights in the RSPO General Assembly.

The executive board of the RSPO has 16 seats and here you can see the organizations and the names of the people who currently sit on the RSPO Board. There are only 15 listed here, meaning that there is currently one vacant seat (Table 1).

There are 4 seats for growers: one seat for Malaysian growers, one seat for Indonesian growers, one seat specifically for smallholders, and one seat for rest of the world. Mr. Jens Meza Dishington has occupied that last seat for three years now – is that right, Jens? Two years. There are 4 seats for growers and 4 seats

Table 1. Governance: RSPO executive board
• Unilever (Jan-Kees Vis, chair)
• WWF Malaysia (Darrel Webber)
• GAPKI (Derom Bangun)
• MPOA (Mamat Salleh)
• New Britain Palm Oil (Simon Lord)
• Aarhus Karlshamn (Ian Macintosh)
• Migros (Robert Keller)
• IOI Group (Don Grubba)
• Cadbury (Tony Lass)
• WWF Indonesia (Fitrian Ardiansyah)
• Oxfam International (Johan Verburg)
• Sawit Watch (Rudy Lumuru)
• HSBC Bank Malaysia (Paul Norton)
• FELDA (Mohd Nor Kailany)
• Rabobank (Thomas Bauer)

for NGOs, 2 for environmental NGOs and 2 for social NGOs. The other sectors, consumer goods manufacturers, processors, retailers and banks, have 2 seats each. So there is a balance of power on the RSPO Board: 4 growers, 4 NGOs, making a subtotal of 8, with a further 8 for the rest of the supply chain.

This was probably the most difficult decision that we had to make in the process of creating the RSPO. The debate about the balance of power was the toughest and the longest. Afterwards, everything else seemed easy.

What we have done so far. We have created a code of conduct for members, which basically describes how members should behave towards one another, how they should seek to resolve conflicts, how they should communicate about RSPO membership and the commitment that this brings. We have also developed, through a criteria development group, the principles and criteria. Fedepalma has provided you with an extract from those principles and criteria, which actually mentions only 8 principles and 32 criteria. Along with that document, we have also developed a generic guidance document that describes in general terms how the principles and criteria should be implemented. Then, as Jens mentioned this morning, there are national interpretations which are required because the legal framework within which the principles and criteria have to work is different in each country.

We have set up an accreditation procedure for certification bodies. Of course, the plan is that plantations certify themselves against the standard that the RSPO has developed. This has to happen in an independent, open and transparent way, so certification bodies can apply for accreditation by the RSPO. The reason for the accreditation procedure is to establish whether a certification body has the experience, capacities and expertise that are required to perform the relevant audits.

Given the scope of the RSPO principles and criteria, which includes business criteria, environmental criteria, social criteria and labor criteria, the certification body needs to have a range of experience. It has to be familiar with environmental auditing, business auditing, technical auditing and social auditing, especially the last of these as it is a very young element in the certification process. The world standard is Social Accountability 8000 (SA8000), which has only been around for six or seven years. Social auditing also requires that interviews be held with stakeholder groups in local languages. So usually the team that comes to perform an RSPO audit will consist of three, four or sometimes even five different people.

We have produced guidelines for supply-chain certification. We will come back to this point in a minute. The reason for such guidelines is that the traditional palm oil market is a commodity market with little or no traceability. Yet, if a company wants to buy RSPO-certified sustainable palm oil, then that company might want to have traceability. It is possible that the company would say, “we want to know where our palm oil is coming from and to make sure that it actually comes from a certified plantation”. This means that we have to make changes to the way the commodity market for palm oil is organized and therefore changes also in the supply-chain certification systems documents. In addition, we have produced guidelines on communications and claims.

Where are we today? Every member supports, promotes and works towards the production, procurement and use of sustainable palm oil. When you start the process of certification, you can expect that there will be conflicts of interest. It is possible that a company is going to be certified, but some stakeholders are of the opinion that it shouldn't be. It is also possible that a certification body does not issue a certificate of

conformance, but the company believes that it has complied with all the principles and criteria. So the RSPO has created a Grievance Procedure and a Grievance Panel. If people believe and/or have evidence that RSPO members are not behaving according to the RSPO principles and criteria, they can file a complaint with the RSPO Grievance Panel.

This is a summary of the document that you have received, “The RSPO Sustainability Principles”. The document is about transparency, about the use of best practices, about environmental responsibility and conservation of natural resources and biodiversity, about the responsible consideration of employees, smallholders and others, and about the responsible development of new plantations.

Some of the more specific social criteria are about land rights. Companies must be able to show that they have the right – the legitimate right, the legal right – to develop the land in question. Such rights should not be legitimately contested, which means using a process of free, prior and informed consent to get the approval of the local communities that will be affected by the land development. Workers' pay and conditions must provide for a good quality of life. In most countries, this is assured through minimum wage criteria and labor legislation. The right to form trade unions must be respected and most of these criteria, by the way, are taken from International Labor Organization (ILO) standards and requirements. Health and safety plans must be implemented. Smallholders must be treated fairly by mills, which means that they must be provided with the right kind of technical assistance, the right kind of seedlings, and the right kind of fertilizers at fair prices, and that they must receive a fair price for the fruit that they deliver to the mills.

The principles and criteria were adopted by the RSPO General Assembly in November 2005. This date is the cut-off point after which RSPO members may not develop new plantings in areas with primary forests or High Conservation Value forests. Erosion and degradation of soils, which occur particularly when the land is exposed at the moment that new plantations are established or that crops are replanted, should be minimized. Pollution and waste should be reduced and the use of fire avoided. As a matter of fact, in Southeast Asia there is a zero-burn policy, meaning that RSPO

members are not supposed to use any fire for clearing land. The use of fire is occasionally approved if it is the only way to remove soil diseases.

Different countries have different rules. They have different legislation, hence the development of national interpretations. Papua New Guinea and Malaysia finished theirs in April 2008, Indonesia followed one month later, and we heard this morning from Fedepalma that Colombia is very close to finishing its own national interpretation. We hope that we can present this in the next Roundtable meeting in November 2008 in Bali, Indonesia.

The certification procedure steps that mills have to go through in order to get certified are laid down in another document, the certification requirements document. If companies want to enter into the certification program, they can find a list of approved certification bodies on the RSPO website.

Companies must notify the RSPO if they want to begin the certification process. There is a 30-day certification period. In that period, the certification request is presented and an announcement is published on the RSPO website stating that a certain mill, plantation or group of mills or plantations will undergo an audit. This announcement allows local stakeholders to organize themselves should they want to submit comments to the audit.

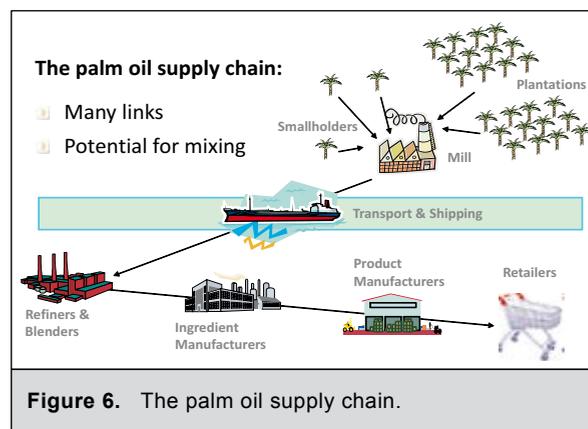
The unit of certification is the oil mill and its suppliers. We have decided on this because the mill is usually the first place where an administration exists which supports the verifying certification body in finding out the origin of the fruit, the volumes that are moving through the mill, and other information.

Of course, the verification is simply about compliance with principles, criteria and indicators, as laid down in the RSPO standard and the national interpretation document. The first phase is a document review. The way that this happens is very similar to an ISO 9000 audit or an ISO 14001 audit. That means it is basically an audit at management systems level. Hence, the first time it is an audit review of the management documents that exist in the mill about management of the plantation, the mill, and so on. The second phase involves a field inspection and stakeholder interviews. The stakeholder interviews can have a very wide scope,

including any number of NGOs. They can include regulatory authorities and must always include local communities.

An audit report is then produced. The audit report is pre-reviewed by an audit review panel. Once the report is found to be OK, clear, transparent, a summary is published on the RSPO website, so it is available to everybody.

The palm oil supply chain is complicated. In the Figure 6 shows that a mill can be supplied with fruits from a number of estates but also from a number of smallholders. I don't know the statistics for Colombia, but in Malaysia 5% of palm oil is produced by smallholders; in Indonesia this figure is 33%, and in Nigeria it is 90%. Smallholders are usually less well organized than industrial estates, so certifying a mill that is supplied entirely by smallholders is complicated.



The crude palm oil is then transported usually by road tankers to bulking stations and loading ports. From the bulking stations, tanker ships are loaded and then they transit to the final destination, which could be Europe, China, the United States, or indeed anywhere in the world.

After offloading, the oil is usually refined. However, it can also be fractionated, turned into a large number of derivatives, and sold to ingredient manufacturers. These semi-finished ingredients are then used by consumer goods manufacturers to produce consumer goods, before being transported to retailers. So organizing traceability in such a supply-chain is quite a complicated matter.

This is why we have provided for a number of different mechanisms that can be used. The first is “identity preserved”, through which the buyer can trace the oil back to an individual mill. This requires total segregation from other oil. You may think that it is an exceptional situation; however, anybody involved in organically certified supply chains knows that this is how they work. There is much more traceability in the world than people realize.

Another option is “segregation”, which also allows full traceability to certified plantations but which does allow the mixing of oil from different certified plantations. The only requirement is that the oil is not mixed with uncertified oil. So a larger volume is moved through the supply chain, which lowers the cost of segregation.

Then there is the possibility of “mass balance”, which allows the mixing of certified oil and non-certified oil. However, the mixing must be controlled so the percentage of certified oil in the final mix is known.

These three options are managed: transactions are recorded in a central registry administrated by *Utz Certified*.

Here are some graphic representations of how these different options work. Conventional plantations and conventional supply chains have no segregation at all. Oil can be mixed and any point in the supply chain with other batches of oil. “Identity preserved” means, as I said, the exact mill from which the oil has come can be identified (Figure 7, 8 and 9).

In the case of “segregation”, the origin of the oil could be more than one mill. It could even be at some point and time that a country decides that all its plantations need to be RSPO-certified. In such a case, all the oil shipped from a particular bulking station would be certified.

In “mass balance”, a record is kept of how much certified oil is mixed with how much non-certified oil. So, at the end of the day, it is clear what percentage of the final product can be claimed to be sustainable.

We have also created an option that makes no changes whatsoever to the palm oil commodity market. We have created a system, which is now called *GreenPalm*, which allows certified millers to sell RSPO certificates to end users. The idea is similar to the carbon credits. One *GreenPalm* certificate represents one ton of palm oil, palm stearin, palm olein or whatever derivative the

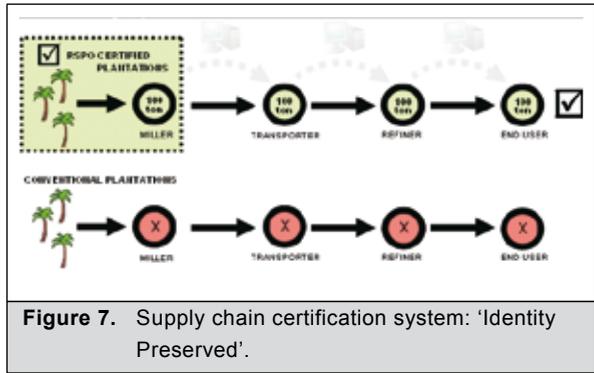


Figure 7. Supply chain certification system: ‘Identity Preserved’.

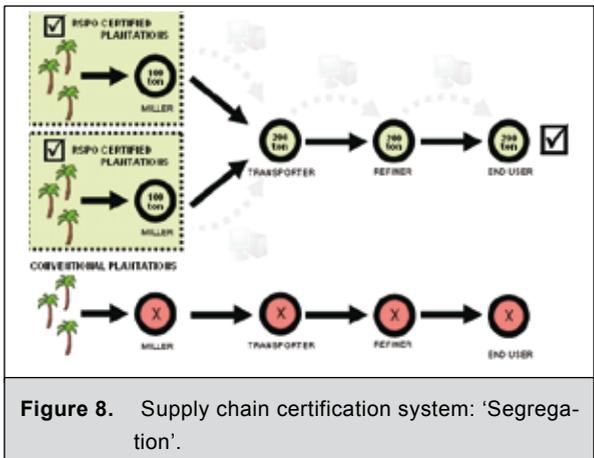


Figure 8. Supply chain certification system: ‘Segregation’.

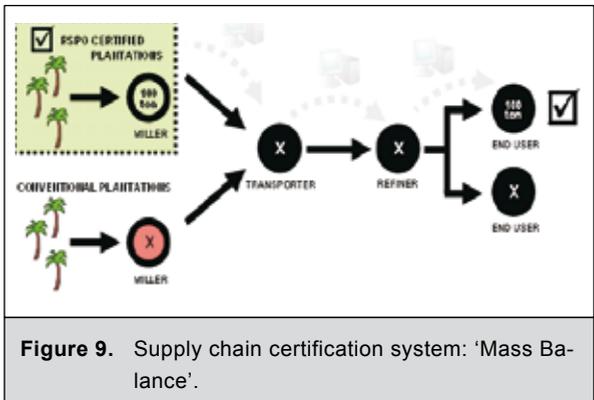


Figure 9. Supply chain certification system: ‘Mass Balance’.

bearer intends to buy. By paying for a certificate, the end user provides a direct financial incentive to growers to become certified.

In this case, the claim that is normally made is “we support RSPO-certified oil”. The oil itself is traded through normal commodity markets, and it does not necessarily end up with the company that has bought the certificates. Hence there’s no tracking, no tracing, no monitoring and no additional cost. The downside is that you cannot make the claim that certified palm oil is included in your price.



So that's how "book and claim" works. (It is clearer on your screens than it is on mine.) The certificates avoid the global supply chain; the certificates go directly from the miller to the end user.

So, the audit summary report not only identifies the mill and the estates that have been certified. It also states the total production capacity of the mill in question: if that is 50,000 tons, then at the time of certification that mill receives 50,000 certificates on the *GreenPalm* website, which can then be offered for sale. The *GreenPalm* website is a clearinghouse between mills that want to sell certificates and customers who want to buy certificates.

The certification procedure for the supply chain will have to verify the movement of oil through the supply-chain, which will require step-by-step documentation. The RSPO has not yet developed a chain of custody standard nor has it identified an existing chain of custody standard that it wants to use for this. In order to be able to start the trade as soon as possible, during the first year we will record self-assessments of shippers, handlers, and traders in order to see whether they can show traceability of oil. Eventually, we will move to third-party certification for the whole chain of custody. Details about that can be found on the RSPO website in the certification systems document.

Communication and claims guidelines identify how the RSPO logo can be used and what type of claims can be made against the different supply-chain options that I just presented. They also give advice on the kind of messages that can be attached to these claims. They apply to on-pack, about-product or corporate communications, so it could be communication on a brand website, on a corporate website or on-pack.

There are two possible claims, which are based on the different levels of traceability that exist in the different supply-chain models. With "identity preserved" and "segregation", the claim you can make is "this product or my company or my brand contains RSPO-certified sustainable palm oil". And in cases where you can identify the level of sustainable oil that you have bought, as is true for "mass balance" and "book and claim", the claim that can be made is "we support the production of RSPO-certified sustainable palm oil". If you have chosen the "mass balance" option and therefore know the precise percentage, you can state it.

This is a summary of the supply-chain options. This is a complicated matter that I think will become easier over time, because I think the market will only use some of the options that we have developed.

With the prescribed supply base and the prescribed supply chain, you can make different claims about your product, depending on the choice that you have made. For example, with "mass balance" and "book and claim", you can make the claim "we support production of RSPO-certified oil".

Where are we at the moment in the certification program? Around 12 certification bodies have been approved by RSPO. This is a work in progress. I just received two business cards from certification bodies that are present here today. Colombian certification bodies are interested in becoming accredited.

Around 350,000 hectares have already been certified. The first four certificates of conformance have been issued – in total, I think that's roughly 12 oil mills. The production capacity volume of RSPO-certified palm oil will be 1.5 million tons by the end of the year, if all the audits that are currently in the program lead to certification.

All documents to which I've referred are available at the RSPO website's "Download Center". There you can find the statutes, the principles and criteria, the criteria of the national interpretation documents, the code of conduct, the certification system document, the supply-chain certification systems documents, and the guidelines for communications and claims.

This is not the end of the story; in fact, it is only the beginning. 50% of the world palm oil production capacity is represented within the RSPO, which means that another 50% is still out there. In terms of the user markets, the strong emphasis at the moment is on Europe and slightly less so on the United States. We have some representation from India and we have some representation from China, but certainly not proportional to the extent that these two markets buy palm oil.

So we want to increase the supply of certified oil, but at the same time we need to increase the demand for it. We want to grow RSPO membership and we need to engage governments. The kind of support that your government, the Colombian government, has shown

this morning is not something that we encounter every day. Yet there are a number of requirements in the RSPO principles and criteria that are better embedded in legislation than in a voluntary business-to-business certification system.

The big challenge remains reaching the millions of smallholders that produce palm oil. Many of them are not well organized, many of them do not have access to internet and mobile phones, and none of them have a travel budget. So it is very difficult to get them to conferences and we have therefore set up outreach programs. We in the RSPO have been working to find the money to do this. Of course, the good thing is that RSPO-certified oil is available in the market: for every ton of certified oil sold, for every certificate sold, one US dollar will go to the RSPO bank account.

If, by the end of this year or in 2009, we have 1.5 million tons of RSPO-certified oil in the market, and all of that is going to be sold as RSPO-certified oil, the RSPO will have additional budget of US\$1.5 million, which we intend to spend almost entirely on outreach programs for smallholders.

There is a separate task force on smallholders which so far has operated on a tight budget. We have to adapt, and indeed we have adapted the RSPO standards. We have created a simpler version for smallholders which is available in a number of local languages, although not in as many as we like so there is still translation work to be done. It is probably recommendable that, for different countries, we have different interpretations of the smallholder standards as well.

In view of the large numbers, it is not feasible for every individual smallholder to be certified. So, we will draw heavily on experience in fair-trade certification and organic certification, which are geared towards certifying groups of smallholders who have to be organized in a way which codifies the commitment of they have to each other.

By the end of 2009, we hope to have certified a total production capacity of 3 to 4 million tons per year, which will be 10% of global production. However, ultimately, I want to say what other ambition one can have. Ultimately, our objective is to see that all the world's palm oil is produced in a sustainable way.

Thank you very much for your attention!