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Source: Tropical Conservation Science, 3(4) : 438-446

Published By: SAGE Publishing

URL: <https://doi.org/10.1177/194008291000300408>

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Opinion Article

CSR, Oil Palm and the RSPO: Translating boardroom philosophy into conservation action on the ground

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Abstract

Effective corporate social responsibility (CSR) is becoming mainstream strategic business planning for the oil palm industry. At its core, CSR aims to align business values with the needs and expectations of a broader range of stakeholders, beyond just investors and shareholders. In oil palm, this entails taking responsibility for social and environmental impacts, often beyond what is required by law, to build social and environmental capital in pursuit of a local “license to operate.” Third-party certification standards are a popular tool for guiding and monitoring the impact of CSR programs and have taken root in oil palm through the multi-stakeholder Roundtable on Sustainable Palm Oil (RSPO). Eight years running, the RSPO has made substantial inroads to improve the environmental and social performance of Southeast Asia’s largest and fastest growing plantation industry. Yet serious challenges remain for RSPO to mainstream environmentally sustainable and socially responsible practices throughout the supply chain. Based on experiences working with multi-stakeholder groups to implement RSPO, including industry, government, local communities, and NGOs, we highlight areas where change is required not only among growers but also the broader RSPO membership to build on recent achievements and accelerate progress. Major challenges include (1) improving corporate governance of plantation companies to translate boardroom CSR decisions into conservation actions on the ground; (2) pushing RSPO member processors, traders, manufacturers, and retailers, who profit from palm oil, to share the cost burden of implementing sustainability, (3) strengthening NGO partnerships with companies to provide the social and environmental expertise companies require but still lack, and (4) creating a more supportive regulatory structure in producer countries to implement sustainability. Challenges to RSPO progress can be overcome, but will require coordinated action to ensure that the scale and pace of change is sufficient to deliver long-term benefits for the environment before it is too late.

Keywords: biodiversity, Corporate Social Responsibility, palm oil, RSPO, sustainability

Received: 26 July 2010; Accepted: 16 November 2010; Published: 20 December 2010.

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Cite this paper as: Paoli, G. D., Yaap, B., Wells, P. L. and Sileuw, A. 2010. CSR, Oil Palm and the RSPO: Translating boardroom philosophy into conservation action on the ground. *Tropical Conservation Science* Vol. 3 (4):438-446. Available online: www.tropicalconservationscience.org

Introduction

Effective corporate social responsibility (CSR) is becoming mainstream strategic business planning for the oil palm industry. Activist campaigns directed at high-profile crude palm oil (CPO) producers and buyers have prompted cancellation of multi-million dollar contracts (e.g., Unilever and Nestle) and disrupted finance from major institutional lenders seeking to manage reputational risk from their investments (e.g., the International Finance Corporation and HSBC). The recent success of international NGOs such as Greenpeace to pressure strategic players in the industry will further strengthen efforts to promote change throughout the palm oil supply chain, which in turn will likely strengthen consumer demand in Europe, North America, and Asia for environmentally and socially responsible CPO products.

Against this backdrop, increasing numbers of palm oil producers (growers), processors, traders, manufacturers, retailers, and banks have joined the Roundtable on Sustainable Palm Oil (RSPO), an international multi-stakeholder effort to improve social and environmental practices of the industry through promotion of third-party certification (www.rspo.org). The RSPO standard is a bold and ambitious experiment to mainstream environmentally sustainable and socially responsible business practices in tropical Southeast Asia's largest and most rapidly expanding plantation industry. Among other requirements, the RSPO prohibits conversion of primary forest by growers and requires identification and maintenance of High Conservation Values (HCVs) in all new plantations [1]. HCVs are social, cultural, and environmental attributes of exceptional importance, defined through an open, transparent, and multi-stakeholder process (see www.hcvnetwork.org). In addition to requirements for growers to mitigate impacts of new plantations, the RSPO Code of Conduct requires non-grower members, including processors, traders, manufacturers, retailers, financial institutions, and NGOs, to actively promote the demand for, purchase, and trade of certified sustainable palm oil (CSPO) throughout the palm oil supply chain [2].

The RSPO has initiated a process of fundamental change in policy and practice throughout segments of the oil palm industry that should be seen in a positive light. Discussions at the recent eighth annual General Assembly of the RSPO (RT8), at which some 790 delegates from 29 countries gathered in Jakarta, Indonesia, to discuss RSPO achievements to date and challenges moving forward, provide a good summary of progress to date. On the positive side: (1) RSPO membership continues growing, with 388 ordinary (voting) members and 103 affiliate or supply chain (non-voting) members; (2) to date, 21 growers and 75 mills have been certified against the RSPO standard, with an output of 3.25 million tons of CSPO from c. 641,000 ha of plantations; (3) poor initial market uptake of CSPO has improved, with more than 60% of available CSPO purchased; and (4) the RSPO awarded its first certificates for small holder production of CSPO of nearly 25,000 household farms, a sign that RSPO certification is not just for large companies. Not all news at RT8 was positive, however: (1) representatives from local communities voiced complaints over slow progress in resolving land disputes with certain RSPO members; (2) growers lamented the unacceptably low premium currently paid for CSPO in the market place, a far cry from the market rewards promised for achieving sustainability; (3) industry representatives from Indonesia expressed disappointment over the ability of RSPO to reassure the international market of Indonesia's commitment to sustainability, creating pressure for Indonesia to develop its own national sustainability standard (see ANTARA News [3]); and (4) observers warned that unless the RSPO responds firmly during 2011, the credibility of the organization will suffer a permanent setback due to the misconduct of high-profile members brought to light during the past year.

Notwithstanding the above and RSPO critiques elsewhere (e.g. Greenpeace [4] and Laurance et al. [5]), two things are evident: (1) a process of fundamental change in the oil palm industry is underway, and (2) the RSPO mission to mainstream sustainable practices remains very much a work in progress.

In this essay, we highlight actions that must be undertaken by the broader RSPO membership and supporting organizations, as well as by growers themselves, to accelerate the uptake of responsible practices throughout the industry. Our comments reflect experiences gained during three years of working with multi-stakeholder groups including industry, government, local communities, and NGOs to foster positive change in the oil palm sector in Southeast Asia. Growers are a major focus of our comments, but we emphasize that non-producer members of the RSPO must play a more active role in bringing about the change desired in order for the RSPO to succeed. Our basic message is that growers must continue to improve; but without broader stakeholder support, growers will find it difficult, if not impossible, to transform practices at the scale and pace needed for RSPO to achieve its mission. We first highlight actions to be taken by processors, traders, and manufacturers in the palm oil supply chain, after which retailers, financial institutions, and NGOs are considered. We then turn our attentions to growers.



Fig. 1. Photos of natural forest and oil palms in Indonesian plantations, riparian buffers, a nursery, and mosaic landscapes of oil palm and forest fragments. Photo credits (clockwise from top left): G.Paoli, G.Paoli, C.Furmage, G.Paoli, I.Woxvold, C.Furmage.

RSPO member processors, traders, and manufacturers

RSPO growers draw the lion's share of media attention among industry members, much of it negative. This makes sense, on the one hand, since growers are at the "front line" in defining how and at what pace change is implemented on the ground (Fig. 1). Yet policies and practices of downstream CPO users can directly impact producer behavior. Consequently, purchasing practices of CPO users have come under greater scrutiny by international NGOs, prompting companies such as Unilever, Nestle, General Mills, Kraft, and Burger King to cancel contracts and avoid buying palm oil linked to dubious practices.

Contrary to frequent representations in the media, oil palm growers are not the dominant voice among business community members of the RSPO (Table 1). They represent only 21.6% of the ordinary (voting) membership, slightly less than manufacturers (24.7%), and nearly half that of processors and traders (40.5%, Table 1). Processors and manufacturers also are allocated four of 16 seats on the powerful Executive Board of the RSPO [6]. Thus, more than 65% of the RSPO voting membership is composed of CPO processors, traders, and manufacturers who derive profit from the CPO trade.

Table 1. Summary of current RSPO members by membership category and geographic origin (as of 3 November 2010 from www.rspo.org). Note: Ordinary members have voting rights in the RSPO annual General Assembly of the membership; Affiliate and Supply Chain Associates do not.

Category	Australasia	Americas	Eurasia	Africa	Total	% of Ordinary Membership
Ordinary Members						
Processors and Traders	85	13	59	0	157	40.5
Consumer Goods Manufacturers	17	10	69	0	96	24.7
Growers	69	8	7	0	84	21.6
Retailers	1	2	18	1	22	5.7
Environmental NGOs	4	1	7	0	12	3.1
Social and Development NGOs	4	0	5	0	9	2.3
Banks and Investors	3	1	4	0	8	2.1
Total	183	35	169	1	388	100
Affiliate Members	51	4	26	1	82	
Supply Chain Associates	5	3	12	1	41	

Australasia includes Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Papua New Guinea, South Korea, Singapore, and Thailand; Americas include Brazil, Canada, Colombia, Ecuador, Guatemala, Mexico, and United States; Eurasia includes Austria, Belgium, Cyprus, Denmark, Finland, France, Greece, Germany, Ireland, Italy, Latvia, Luxembourg, Netherlands, Norway, Russia, Scotland, Spain, Sweden, Switzerland, and United Kingdom; Africa includes Ghana and South Africa.

The inherent dependency of CPO processors, traders, and manufacturers on growers, coupled with their substantial voting power in the General Assembly and the Executive Board, creates an obligation on the part of this group to work with producers to accelerate growth of CSPO supplies. Pro-active support of growers by CPO users and traders is required under the RSPO Code of Conduct and can be achieved by direct support for the CSPO market, and a willingness to pay premium prices to offset costs of implementing sustainability.

The market uptake of CSPO has increased sharply in recent months [7] following an effective campaign by the Worldwide Fund for Nature (WWF) to spur demand [8]. Still, more than 1 million

tons remain on the market. RSPO member manufacturers are among the largest multinational consumer product companies in the world (L’Oreal, Unilever, Johnson & Johnson, Kellogg, Colgate-Palmolive and PepsiCo), and should wield their collective purchasing power to absorb available supplies and thereby demonstrate strong market demand for CSPO and support for its producers.

Contrasting the recent surge in CSPO demand, price premiums for CSPO have plunged. The value of GreenPalm certificates for CSPO – roughly equivalent to a price premium – is down from \$US40 per metric ton in 2008 to less than \$US4 today [9]. This is equivalent to a less than 1% premium over the current market price for CPO, and sends a counter-productive signal to growers. Certification is expensive, and the cost should be shared among others earning profit in the industry. Substantial price premiums for CSPO will enable executives within producer companies to reassure their bosses and shareholders that Green Business matters, and provide a much needed morale boost to continue the difficult work of mainstreaming sustainability.

RSPO member retailers

RSPO member retailers with a stake in palm oil are a small but rapidly growing sub-group within the RSPO, currently representing 5.7% of the voting membership (Table 1), and occupying two seats on the Executive Board. RSPO retailers originate primarily from European countries (18 of 22 members), where consumer demand for environmentally and socially responsible products is highest. Retailers are many steps removed from the source of CPO in products they sell, but they interface with the public, and thus play an important role defining how sustainability concerns feed into consumer decisions, and their willingness to pay for products that contain responsibly sourced ingredients. Overtime, the market will bear the CSPO premium discussed above only if consumers are willing to pay the additional cost. For this reason, RSPO retailers must work together with the RSPO itself to undertake a coordinated and strategic international communications campaign aimed at increasing consumer awareness, demand, and thus willingness to pay for products containing CSPO.

Banks and lending institutions

Banks and financial institutions are another small but important segment of the RSPO membership that can be instrumental in promoting better practices by creating positive and negative incentives for change. Banks comprise only eight voting members (2.1% of the total; Table 1), but include very large and influential institutions (e.g., the IFC), and occupy two seats on the RSPO Executive Board.

Ongoing scrutiny of lending institutions with a stake in oil palm (for example, Greenpeace [10,11]) has created pressure for banks to develop and enforce lending policies to avoid investments detrimental to the environment. Such scrutiny led to the suspension of IFC investments in oil palm pending a revised framework for engagement in the sector [12], as well as divestment by HSBC Bank from investment funds linked to deforestation [13].

Reducing the flow of capital to underperforming companies sends a strong signal and will serve as a punitive incentive to improve practices for companies that require institutional financing to expand their operations. It should therefore be a strict requirement of all RSPO member banks not to invest in oil palm companies unsupportive of the RSPO mission. But to induce further positive change among RSPO growers, banks must also create incentives to reward achievements by producers. For example, borrowers who have received RSPO certification of at least one plantation, and therefore represent lower risk for a bank, could be offered discounted interest rates on future loans, or streamlined (discounted) due diligence for loan evaluation.

Efforts by RSPO member lenders to penalize poor practices and reward positive ones could have far-reaching implications in promoting better practices among both member and non-member producers and should be pursued vigorously.

RSPO-member social and environmental NGOs

Social and environmental NGO participation in the RSPO would appear limited, with only 21 voting members, representing a 5.4% voice in the General Assembly (Table 1). In reality, NGO involvement in and support for the RSPO is more widespread than membership alone would suggest. Four of 16 seats on the RSPO Executive Board are allocated to NGOs, currently represented by the Worldwide Fund for Nature (WWF), Conservation International (CI), Oxfam International and Sawit Watch. These organizations have significant global reach and/or regional profile, fundraising potential, and lobbying influence with governments, business, and lending institutions to further the RSPO initiative.

To date, NGOs have made notable contributions to support RSPO member companies working to improve practices, and to build international market demand for CSPO (for example, WWF [8]). Nevertheless, additional NGO support for companies is urgently needed. The environmental and social standards for RSPO certification require a level of expertise in biodiversity planning and social engagement that few companies possess. Pressure applied by activist NGOs is vital to ensure that forward progress is maintained, but NGOs willing to engage constructively with business need to assist with six main tasks:

1. Assist in the design and implementation of conservation reserve design within plantations to minimize impacts and maximize landscape-level biodiversity conservation benefits within modified landscapes.
2. Help guide the development and implementation of effective methods for collaborative management with communities, respecting local traditional livelihoods on the one hand (e.g., hunting and small-scale timber extraction) and conserving biodiversity within set-asides on the other.
3. Lobbying of governments in producer countries (especially Indonesia and Malaysia) to support RSPO members implementing sustainable business practices. This includes, most importantly: (1) Revising plantation regulations to permit inclusion of conservation set-asides within formal operational licenses, which is not currently permitted in Indonesia without special permission from local agencies, and (2) extending the period of time allowed for RSPO members to develop their plantations, in recognition that proper planning, social engagement, and operational practices require more time than is permitted in most countries (e.g., three years in Indonesia). See Colchester et al. [14] for a fuller discussion of government policy constraints on RSPO.
4. Continue to pressure traders, processors, manufacturers, and retailers (both members and non-members) to buy CSPO and thereby create a premium that will attract new growers to the RSPO and reward existing good practices.
5. Lobby to increase market and financial support for CSPO in the United States, where membership lags far behind other western countries (16 members, 4.1% of total), despite CSPO imports of nearly 1 million tons in 2009, fifth largest in the world and growing rapidly [15].
6. Work constructively with local communities and companies to oversee negotiations for transfer of land-use rights through a credible Free Prior Informed Consent (FPIC) process. FPIC is best assured by participation of independent third parties during the consultation process. Local NGOs must be willing to play this role without fear of being accused by others of bias or being branded a “sell out” to industry.

RSPO member growers

Progress on the above will help create an environment conducive to positive change among growers. Yet even then, one should not understate the investments in conservation, community development, human resources, and delayed operations on the ground that are required of plantation companies to uphold their obligations under the RSPO. Even the most committed and responsible companies struggle to succeed, reflecting genuine political, social, and financial constraints, as well as the inability of “sustainability minded” company officials to translate board-room philosophies into change on the ground. We make the following observations for RSPO member growers:

1. Company officials must fully accept sustainability as a business model. Achieving the RSPO objective of “legal, economically viable, environmentally appropriate and socially beneficial management and operations” [1] delivers long-term benefits, but requires sizeable upfront costs of delayed development and continuous investment to build local support and staff resources to implement best practices. To sustain these investments, companies must labor through the process of hammering out a shared vision among senior directors and shareholders that sustainability will guide the company approach to business operations. To achieve this, targeted campaigning within companies may be required for sustainability voices to “enlighten” influential parties with more conservative mindsets.
2. Producers must set clear sustainability goals and get priorities in order. Responsible plantation development requires that sustainability concerns and development goals be given equal priority. Sustainability should not be an add-on burden for plantation managers to bear, but rather an overarching strategic framework for realistic development planning. To do so, companies must begin planning early, and development should not move forward in advance of completing HCV assessment and associated social surveys and management planning.
3. Companies must avoid buying high-risk license areas, even when they are a bargain. Due diligence to avoid buying oil palm licenses in areas that are heavily forested or represent habitat for threatened species can go a long way to minimize the costs of RSPO compliance. This requires time to collect information as a basis for decision-making and a willingness to forgo high-risk areas that carry “natural subsidies” for development (e.g., logging revenues from clearing a natural forest) or that promise high yields due to prime ecological conditions (e.g., planting on alluvial soils in a riparian floodplain that requires draining).
4. Producers must commit resources to building and retaining human capacity. The oil palm industry as a whole has limited traditions of biodiversity stewardship. Company officials, management, and operational staff require in-depth and sustained training to increase awareness and acquire new skills. Partnership with outside experts, NGOs, and local community initiatives are being explored by a number of leading RSPO companies, and this model should be replicated.
5. The sustainability mindset must be incentivized on the ground. For example, members of the land-use-rights acquisition team seeking land releases from local communities for planting should not be compensated strictly on the area of land that communities release, but also on some measure of community satisfaction with the transparency, mode, and outcome of the transaction. Likewise, contract developers should be paid not simply on areas cleared and prepared for planting, but also on the extent of riparian buffers left intact and steep slopes avoided (where required by management plans). Skilled human resources must be compensated in line with their contributions to sustainability, and sustainability managers must have authority in the field to question operational decisions at variance with the sustainability agenda.

Conclusion

The RSPO is not perfect, but it represents a tested and constantly improving multi-stakeholder opportunity to avert continued habitat loss for much of Southeast Asia's most threatened terrestrial biodiversity. Fundamental challenges remain ahead for RSPO to transform business-as-usual practices and to mainstream sustainability, especially among non-RSPO growers. Nevertheless, awareness of sustainability among industry stakeholders, civil society, and government is clearly increasing, and both supply and demand for CSPO are on the rise. The Netherlands government's recent announcement of plans to source 100% of its CPO imports from certified sustainable sources by 2015 [16] also provides a major boost to growers.

A final, uncomfortable question remains: Are rates of industry transformation sufficient to avert a biodiversity catastrophe in production landscapes outside protected areas? If not, then how can we accelerate improvements to reduce the industry's footprint on biodiversity before it is too late? At present, we cannot say. But we are hopeful that if the broader RSPO membership makes progress on the issues discussed above, and leading RSPO members stay the course, then industry improvements will accelerate and the RSPO may well deliver long-term positive benefits to biodiversity in Southeast Asia.

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