Making RSPO work throughout the supply chain

Qua Kiat Seng, ASEAN Oleochemical Manufacturers Group

It is highly likely that by the time of the presentation of this paper some things would have moved on. It will show how fluid the situation is. By the supply chain I will be referring to derivatives which includes oleochemicals. It has taken me some two years to learn about RSPO and the details associated with it. Whilst I applaud RSPO I cannot yet say I fully understand it so I hope in the paper I am able to share with you clearly what I know. Hopefully the slides I will use during the presentation will help me do this better.

The AOMG

I would begin by introducing the ASEAN Oleochemical Manufacturers Group as ASEAN has half the global oleochemical capacity and it is largely based on palm oil. The oleochemical industry in ASEAN really began in the early 1980s with the Malaysian Oleochemical Manufacturers Group (MOMG) formed in 1984 and then the Philippine Oleochemical Manufacturers Association (POMA) two years later. In 1986 the ASEAN Oleochemical Manufacturers Group (AOMG) was formed. Ten years later in 1996 the Asosiasi Produsen Oleochemical Indonesia (APOLIN) was formed.

The objectives of the AOMG is to represent the oleochemical industry and promote the formation of reliable and responsible production without prejudicing normal competition. Our products include fatty acids, methyl esters, glycerine, fatty alcohols, soap, amides, amines, industrial esters, metal stearates etc. Our raw materials are coconut, palm oil and palm kernel oil. Our industry is capital intensive, export orientated, high-tech with large capacity employing relatively small numbers compared with the plantation industry.

Three quarters of the AOMG membership are ordinary members of RSPO themselves or through their parent companies. These are Emery Oleochemicals (M) Sdn Bhd, Fatty Chemical (Malaysia) Sdn Bhd, FPG Oleochemicals Sdn Bhd, IOI Oleochemical Industries Berhad, Natural Oleochemicals Sdn Bhd, Pacific Oleochemicals Sdn Bhd, Palm-Oleo Sdn Bhd/KL-Kepong Oleomas Sdn Bhd, PT Ecogreen Oleochemicals, PT Musim Mas, PT Nubika Jaya, PT SOCI MAS and Thai Oleochemicals Co Ltd. AOMG fully supports the RSPO initiative.

RSPO

The Roundtable on Sustainable Palm Oil that was first explored in 2001 crystallised with an inaugural meeting in Kuala Lumpur in 2003. The principal objective of the Roundtable on Sustainable Palm Oil (RSPO) is “to promote the growth and use of sustainable palm oil through cooperation within the supply chain and open dialogue between its stakeholders.” Members and participants in its activities come from many different backgrounds and include environmental NGOs, banks and investors, growers, processors, manufacturers and retailers of palm oil products and social NGOs. They come from many countries that produce or use palm oil. The RSPO Principles and Criteria for Sustainable Palm Oil Production (RSPO P&C) are the global guidelines for producing palm oil sustainably.

At the time of writing the volume of RSPO certified palm oil has reached 5 million metric tonnes more than doubling the quantity available the previous year. Market uptake is also increasing and in 2010 was 56%. In this paper I will make some suggestions on how to improve the uptake with regards to derivatives/oleochemicals.

The next week after this conference RT 9 or the world's 9th annual roundtable meeting on sustainable palm oil will be held in Kota Kinabalu, Malaysia. Much progress has been made since RSPO was founded in 2004 but there is still a long way to go. What lies ahead for derivatives and the oleochemical industry? Let's look at the history and we find that we do not have to go very far back.

The Palm Oil Coalition

A group of about 30 members that includes manufacturers and consumers calling themselves the palm oil coalition met for the first time in London in March 2010 and initiated a technical working group on derivatives (TWG on Oleochemicals). Members of the coalition at that time included Unilever, P&G, L'Oreal, Tesco, M&S, Lion, Reckitt Benckiser, Migros, Neste, Colgate, Body Shop, J&J, Shell, Kao, Godrej Industries and Henkel. Most have published their own sustainable palm oil targets. 2015 is an often cited year. When AOMG learnt about the TWG on Oleochemicals a number of its members decided to invite themselves into the TWG from January 2011.

The group met again in London in February 2011 this time with a member of AOMG attending viz Emery Oleochemicals. After the presentation of the report on the TWG on Oleochemicals that focussed on Green Palm it was agreed to transfer it to RSPO to become part of the work area of the Standing Committee on Trade & Traceability.

Complex

From a write up of the above meeting on the topic is this text "Complexity means some sort of certificate scheme is likely to be the only option; proposals are being worked through for presentation to the RSPO. For derivatives from segregated oils, no supply exists due to the even greater complexity, the prohibitive cost of producing and lack of demand. Overall, the market lacks transparency on what is available, who produces it and who uses it. This is difficult to address without infringing competition rules" that speaks for itself.

The comments is not surprising from our own survey. Of the 37 members of the palm oil coalition our members do business with an average of 8 with a range from 0 to 14. The number is lower than I expected as our members have substantial exports to Europe/USA. It may be that some do not sell directly to the end consumer manufacturer but to other intermediate manufacturers. If that is the case then there are other players in the supply chain that we may be missing.

The UTZ Certified Traceability system offers traceability up to the refinery. Till now this is only available for palm oil and still not available for palm kernel oil. That means that SG derivatives from palm kernel oil cannot exist.

T&T SC SubGroup

Cognis/BASF took the lead in presenting the findings to the RSPO Trade & Traceability Standing Committee in Antwerp in June 2011 and invited participation in its subcommittee. The subcommittee is working on its report to the SC T&T on 6th October 2011 in Liverpool. So far the subcommittee has corresponded by emails and telephone conferences and we would like to see some face to face meetings (and in our part of the world) where more meaningful and greater depth of discussions can be had.

There are four traceability methods in RSPO viz Identity Preserved (IP), Full Segregation (SG), Mass Balance (MB) and Book & Claim/Green Palm with IP being the most rigorous and GreenPalm the least having no physical handling of certified palm oil. Whilst the palm oil coalition wishes for Identity Preserved system (IP) which is not realistic they would still want to aim for the Full Segregated (SG) system.

The subcommittee is focussing only on GreenPalm as it is the simplest and would quickly allow some claim on certified palm oil in the end consumer products as well as take up certified palm oil. The subcommittee calls itself T&T SC SubGroup – Industry Standard Definintion for HPC Derivatives. The members BASF, Unilever, Ikea, Strategic Environmental Consulting, Cargill, Croklaan, Henkel, J & J, Emery Oleochemicals, AOMG, Rhodia, Werner Mertz and Croda.

<u>GreenPalm draft guiding rules for derivatives</u>
The draft guiding rules is titled "RSPO Rules for Home and Personal Care Derivatives." Its scope covers

1. Definition
2. General Terms
3. Scope
4. Calculation Scheme
4.1. Feedstock Identification
4.2. Calculation Method
4.3. Conversion Factors
5. Summary
6. Appendix

I list a number of observations to share some issues that are on the table

- under Feedstock Identification it tries to link the derivative to either palm oil or palm kernel oil. To do so can add to the complication as for example a C16/C18 stearic acid can be obtained from palm oil or palm kernel oil. Chain length is irrelevant and palm oil and palm kernel should be treated as one.

- for fatty acids and fatty alcohols there is a suggestion to reflect the global average produce of coconut and palm kernel oils as a long term average. This will not be a correct reflection for many producers

- for glycerine there is a suggestion to reflect the global average produce of palm and palm kernel oils vs. all other oils as a long term average. Again this will not be a correct reflection for many producers. Synthetic glycerine should not be used at all for RSPO purposes.

- conversion factors are not relevant when we look at Mass Balance (MB) implemented for some downstream products such as glycerol monostearates.

It may be that the proposals are not fully understood without a face to face meeting.

Physical transition

Whilst the above guidelines caters for the time until the physical supply chain materializes I feel that it is important that it has the physical supply chain in mind.

In October 2010 a new option to supply chain rule on Mass Balance (MB) was introduced. Under the new option, companies can purchase a certain volume of Full Segregation (SG) sustainable palm products (triglycerides) and use it to match the sales of equal volumes of palm product (triglyceride) derivatives that then carry a Mass Balance claim. This is to avoid the economic imbalance between Book & Claim and Mass Balance with the desire that it will stimulate the uptake of Segregated material.

The option does not require a physical or chemical link between the acquired Segregated product and the derivative that is sold under Mass Balance. For example, a purchase of 20 tonnes of Segregated palm olein can be used to match the sales of 20 tonnes of Mass Balance stearin even though it is impossible to transform olein into stearin.

Looking ahead will help us to avoid making major adjustments to the guidelines for physical handling later on.

Supply Chain Certification System

The Supply Chain Certification System (SCCS) 2009 is due for revision and as it was not done with oleochemicals and its derivatives in mind SCCS 2011 should. A revision will help not only manufacturers but also the Certifying Bodies. Even before moving to oleochemicals the SCCS 2009 has been sometimes interpreted by Certifying Bodies away from RSPO's intentions. The appointment of the SCCS Manager in Kuala Lumpur will allow this to be looked at closely. A few more comments

- the supply chain standard should not include greenhouse aspect and RED
- the SCCS certification should have a validity of 3 – 5 years and should not be based on tonnage. The current tonnage figures are so small.
- we are pleased to note that GreenPalm & companies using it will be audited to ensure the use of the certificates is not abused

Make it simple

"Often the diverse pool of well qualified participants seem to direct its efforts towards assuring that the system could not be tricked or corrupted. This often has resulted in very complex and sometimes incomprehensible roadmaps to compliance and confusion in the market place slowing the uptake of certified palm oil by buyers. We would want a completely water tight system that provided perfect accuracy of use of palm and palm kernel oil and full traceability. We would also want that the system would be the lowest possible cost and have no impact on the way that business is currently conducted.

The outside world (those outside of the supply chain) needs assurance that the growers and end users are aggressively moving towards the goal of a supply chain that is principally RSPO certified sustainable palm oil and some proof that this is indeed happening in a substantive way (verified and audited). And that the uptake of sustainable palm oil is progressing towards the ultimate goal.

Those outside of the supply chain will have little to no interest in carbon chain lengths, composition variance based upon supply chain or use ratios."

The above words of wisdom is from one of the members of the T&T SC SubGroup. Keeping it simple is the key to the market uptake of sustainable certified palm oil. There is no chemical or physical test to differentiate certified from non-certified sustainable palm oil.

<u>The medium term</u>

Under the present circumstances where it is not yet feasible to have physical segregration and traceability the GreenPalm programme works by bypassing the physical supply chain completely. It is a straightforward, flexible and easily implemented system that allows our end consumer manufacturer customers to support RSPO and communicate to their customers their support of the production of sustainable palm oil.

In August 2010 Harald Sauthoff of Cognis stated at the RSPO Conference Belem "…we are at the point of no return: the journey from natural to sustainable has started!" Alan Brunskill, former MD of FPG Oleochemicals wrote in the May 2011 OFI magazine "…oleochemicals, their main use is in cleaning …latest sustainable reports from major cleaning product companies, Henkel and Proctor & Gamble are both aiming to have all the palm oil and derivatives used in their products from confirmed sustainable sources by 2015, while Unilever is aiming for 2020." With the launching of the RSPO logo in June 2011 RSPO President Jan Kees Vis said: "We have come a long way since the RSPO was founded in 2004, with currently around nine percent of all palm oil produced in the world being RSPO certified. It is also true however we still have a long way to go."

<u>Conclusion</u>

I would like to leave with you three points as we develop the guidelines.

1. Make the process less Euro-centric so that there is global ownership
2. Talk it out face to face so that there is quicker understanding and buy in
3. Keep the systems simple. This will not only keep the extra costs minimal but it will also encourage rapid market uptake of certified sustainable palm oil.

Then the "long way to go" might not be as long.

26th September 2011