2015

Palm Oil Industry Transformation Update

Introduction

It has been roughly 12 months since TFT released its last update paper on palm oil.[1]

Our 2014 paper highlighted how leading brands, processors and growers were implementing a change model based on their own sourcing values. They were going on a journey of innovation which involved formulating their sustainability goals and deciding how best to implement and verify them, before reporting on the progress they were making.

What another year it has been for the palm oil industry! Strong commitments were made by a number of businesses, including Danone, Musim Mas, Hershey, Colgate and ADM. Around 96% of the world's palm oil is now governed at some level by No Deforestation, No Peatland and No Exploitation policies.[2]

2014 also saw ambitious palm oil sourcing policies being published by brands such as Johnson & Johnson and PZ Cussons, both of which must deal with the additional complexities that are present in oleo chemical supply chains. But these businesses, along with many others since Nestlé's groundbreaking No Deforestation commitment in 2010, are not shying away from the challenges of implementing their sourcing policies in collaboration with their suppliers.

A little over a year after making its No Deforestation, No Peat, No Exploitation commitment, Wilmar - the world's largest palm oil trader - made its list of over 800 mills that it directly buys palm oil from available to the public. This was previously considered secret commercial information. No one has ever supplied this level of transparency in agricultural commodities. With Wilmar covering around 45% of the palm oil industry, such levels of transparency set the tone for a new engagement between industry, local civil society, as well as all stakeholders. In March 2015, the High Carbon Stock (HCS) Steering Group published its HCS Approach Toolkit, the methodology that needs to be applied to conserve forests in a landscape.

The important element about those commitments, progresses and updates is that they are **REAL**. They exist. They are not just ideas or theories but are actively being implemented on a global scale. They are concrete steps that have been created along the journey by the palm oil industry players themselves and that we could not have imagined five years ago. They are the fruit of the active and sometimes unusual collaboration between businesses and NGOs, and between buyers and suppliers. They exist thanks to increasing levels of trust in the palm oil supply chain and the incredible ability that humans have to make good things happen when they put their minds and hearts to the task.

[1] http://www.tft-earth.org/wp-content/uploads/2014/05/TFT-Palm-Oil-paper-two.pdf
[2] Calculated by Chain Reaction in December 2014

Why is this important? Because it gives **HOPE**: after years of negative reports, significant positive news is finally coming from the palm oil landscape again. Yes, businesses can be serious about tackling palm oil environmental and social issues now and on a large scale.

They can also develop solutions that will benefit all consumers and producers of palm oil, not just the portion that are part of a niche supply chain feeding wealthy countries paying a high premium for so-called certified sustainable ingredients. It is important because it gives **INSPIRATION**. Many brands are watching and thinking 'if this company is doing it, why couldn't we do it too?'

An example of this inspiration is McDonald's extending its commitment to cover all commodities, not just palm. Governments too are inspired by the drive coming from the private sector, as demonstrated by the New York Declaration for Forests signed late 2014:

http://www.un.org/climatechange/summit/wp-content/uploads/sites/2/2014/07/New-York-Declaration-on-Forest-%E2%80%93-Action-Statement-and-Action-Plan.pdf

Through the present paper, we want to do three things:

1. Take a closer look at the transformation model being implemented by palm oil industry players (brands, processors and growers), and see how it helps in understanding the journey the industry is on so far.
2. Look forward to how we envision the path ahead for No Deforestation / No Peatland / No Exploitation palm oil. Brands together with the whole palm oil industry are facing the challenge of protecting forests and making sure peoples' rights are respected on the ground. How will we work together to achieve this in the most efficient and credible way possible?
3. Share ideas about what brands, donors and NGOs can do to support the transformation journey.

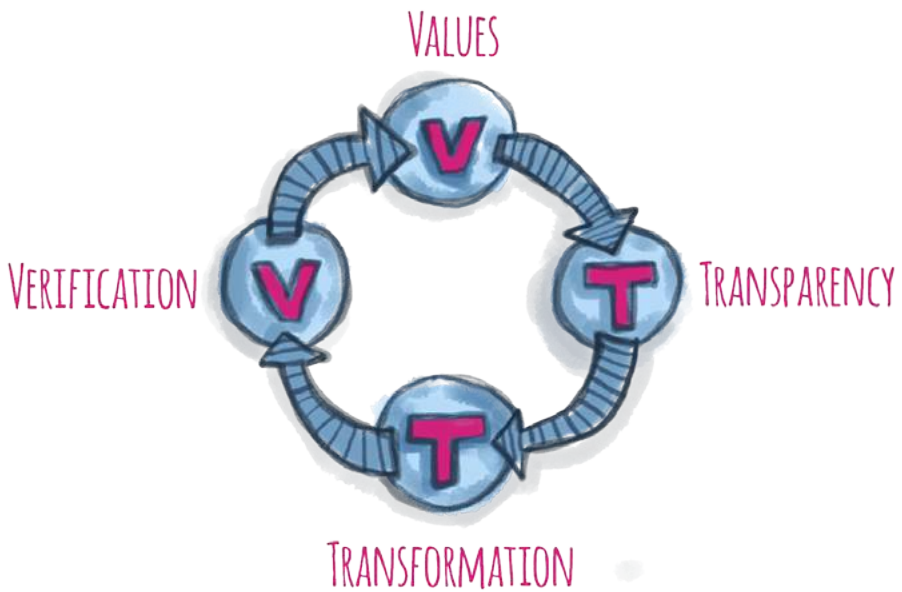
The VT-TV Model

The VT-TV model is a simple way to describe what we have identified and experienced as being a way for businesses to drive responsible practices and sourcing in their supply chain. Our aim is to improve environmental and social quality across the palm oil industry. Quality improvement is in essence an ongoing process where innovation can freely emerge. It is inspired from how quality improvement processes already happen in a supply chain between buyers and suppliers.

We call this change model VT-TV as per the initials of each step of the work (see Figure 1, right). It proposes an alternative path for market transformation to the one traditionally proposed by certification and roundtables schemes (which often focus all efforts on the final V, verification, while largely neglecting the rest of the model). It allows for faster change and better collaboration in the supply chain.

One of the key differences with certification schemes is that VT-TV is a process that is fully owned by the business that implements it. And from our experience, the speed of change within an organisation, or even at an individual level, is closely linked to the level of ownership that a business or person has about the change journey it undertakes.

VT-TV is totally open source and can be used by any company of any size, from any country. Because it is not an imposed norm, it allows for every business to input and contribute to the design of the final solution and ultimately frees up innovation at all levels of the supply chain.



How palm oil industry players are using VT-TV

No one is saying 'I am using the VT-TV model,' but companies thinking deeply about responsible sourcing do naturally follow the process. Since Nestlé started to express its own values in 2010 through publishing its Responsible Sourcing Guidelines (RSG), other businesses have realised that starting the journey by writing their own policy would be a good way to form a commitment and implement it. Below is a list of concrete examples of how businesses have designed their own sourcing policies and started their own transformation journey, producing innovations along the way that have then become relevant to the whole industry.

V: Values

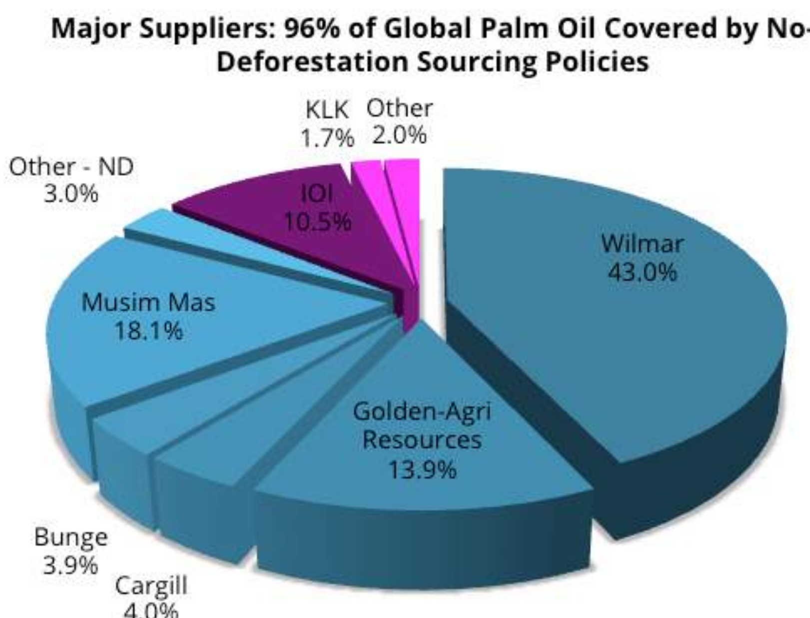
is about expressing the company's values in the form of a sourcing policy. Typically it starts with trying to answer the question: "What do I want my products to be....do I want deforestation in them? Do I want forced labour?" Once the people in the company answer that question by saying "the palm oil we buy must be free of deforestation", they send a clear demand to suppliers, but also leave the path to implement it open.

Examples of company values policies published over the last 12 months:

- Johnson & Johnson – May 2014
  http://www.jnj.com/sites/default/files/pdf/cs/JnJ-Responsible-Palm-Oil-Sourcing-Criteria.pdf
- Danone – May 2014
  http://www.tft-earth.org/wp-content/uploads/2015/01/Palm_Oil_Policy_Danone.pdf
- Cargill - July 2014
  http://www.tft-earth.org/wp-content/uploads/2015/01/Cargill-palm_oil_policy_statement.pdf
- Hershey - July 2014
  http://www.tft-earth.org/wp-content/uploads/2015/01/Hershey-Palm_Oil_Sourcing_Policy.pdf
- PZ Cussons – August 2014
  http://www.tft-earth.org/wp-content/uploads/2015/01/PZ-Palm-Oil-Promise.pdf
- Musim Mas - December 2014
  http://www.tft-earth.org/wp-content/uploads/2015/01/Musim-Mas-Sustainability-Policy.pdf
- Barito Pacific – January 2015
  http://www.barito.co.id/index.php/news/detail/77
- ADM – March 2015
  http://www.tft-earth.org/wp-content/uploads/2015/05/ADM-No-Deforestation-Policy.pdf
- McDonalds – April 2015
  http://www.aboutmcdonalds.com/mcd/sustainability/sourcing.html

It is interesting to note that companies are using their own words to phrase their sourcing policies. They express it in a way that suits them and is understandable within their company culture. All commitments contain key elements like protection of High Carbon Stock (HCS) forests. So there is a level of standardisation that naturally emerges even if no previous coordination/roundtable was designed for business to align on a standard.

Companies have spontaneously applied similar policies on other commodities: the commitment made by Barito Pacific for example applies to palm and rubber. The Nestlé commitment applies to palm oil, pulp and paper, and soy. ADM and McDonald's commitments also apply to all commodities, including soy.



Source: Forest Heroes

As mentioned previously, the calculation produced by Chain Reaction (see chart at right) in December 2014 showed that 96% of the palm oil traded worldwide is now covered by No Deforestation commitments at some point in the supply chain. This means that for almost any palm oil produced in the world, the principles of No Deforestation, No Peatland and No Exploitation have become a standard market demand.

Interestingly the values based approach allows for everyone to express simply what they want. Consumers can understand it as well as CEOs or company employees. Stopping deforestation or respecting people's rights does indeed correspond to what humans in the various companies would naturally aspire to. While those sourcing guidelines cannot all be met by the industry right now, they provide a goal to tend to, without imposing the path on how to get it.

Because everyone can hold those values/sourcing principles close to them as individuals (and not see them as some complex scheme imposed from the outside), and because they can contribute directly to design the path on how to achieve them, the level of ownership is high. Consequently, the various journeys of companies benefit from the positive contributions of thousands of people, who are dedicating time and energy to move towards that goal.

T: Transparency

In 2010 we were told that traceability in palm oil was ‘impossible.’ Traceability over the origin of palm oil was at the time something that indeed could only be acquired through expensive segregation. Businesses, if they wanted traceable oil, had to pay significant premiums so that their suppliers could segregate the traceable and certified oil from non-traceable oil at every stage of the supply chain (mill, port, ship, refinery and so on).

Buyers were continually disagreeing with their suppliers over who should pay for the segregation premium, mostly composed of logistical costs to keep two flows of oil separated. How can an industry move forward when stuck in endless debates? How can an industry move forward if the cost of the solution being pushed onto businesses is adding high premiums to the cost of the product? Should only the richest consumers benefit from information about the origin of the oil they buy? Segregation alone was not the solution.

The “Transparency” approach involves asking questions before coming up with a solution, such as “where does the palm oil I buy come from?” If a buyer starts showing genuine interest in the origin of 100% of the palm oil they buy, he is not dictating a solution or a way to do it. He simply creates a fertile space for the supplier to bring in its own ideas and proposals, allowing for a conversation based on the new transparent information, in confidence.

An open question such as “where does the palm oil I buy come from?” is indeed an invitation to work together. It completely changes the dynamics between buyers and suppliers. Instead of arguing over premiums both suppliers and buyer start working together in a constructive spirit to answer that question, just as they do when working on issues related to product quality.

The initial answer suppliers gave to brands asking for palm oil traceability was “I don’t know but will try to find out”. As they worked towards finding out, many suppliers (processors and traders) realised they actually had access to some of the data in their systems but that it had never been presented or used for such purpose. Also they found that there was little harm in asking their upstream suppliers the same question. Before long they started to make progress.

A few reports published over the last 12 months show how brands and their suppliers managed to quickly make progress together on getting traceability back to mill for the palm oil they buy without setting up segregated lines or investing millions in building another factory or tanks dedicated to “traceable palm”. Nestlé recently announced having achieved over 82% traceability to mill, and Hershey recently announced reaching 94% traceability to mill for their global supply chain. It is unlikely they would have achieved such numbers if traders and processors had not embarked on the journey alongside them, working in a similar open minded approach.

Below are a few company progress reports, showing progress on traceability:

- Mars – Sept 2014
  http://www.mars.com/global/press-center/palmoil.aspx
- Ferrero – Nov 2014
  http://www.ferrero.com/group-news/Ferrero-palm-oil-progress-report---November-2014
- Neste oil – Year 2014
  http://neste-oil-2014.studio.crasman.fi/pub/pdf/Nostolinkki-PDFt/ENG/Sustainability2014.pdf
- Wilmar – January 2015
  http://www.tft-earth.org/stories/news/wilmar-leads-path-to-transformation/
- Nestlé – February 2015
  http://www.nestle.com/asset-library/documents/creating-shared-value/responsible-sourcing/progress-report-palm-oil-2014.pdf
- Cargill – April 2015
  http://www.tft-earth.org/wp-content/uploads/2015/01/Cargills-second-progress-report.pdf
- Hershey – April 2015
  http://www.thehersheycompany.com/newsroom/news-release.aspx?id=2038297

Traceability to mill is not the objective in the journey toward responsible palm oil sourcing. But it is a milestone that allows them to:

Evaluate how big the transformation task is. Musim Mas identified the number of mills that are directly supplying its refineries. Wilmar identified over 800 mills supplying 19 refineries and Hershey identified over 1,200 mills in their global supply chain.

What part of the supply is likely presenting compliance issues / risk and therefore where to focus to solve the biggest problems first: where social practices need the most improvement and where bulldozers are actively clearing forest or destroying peat.

Traceability is not yet transformation of practices, but by bringing transparency over the supply as well as relevant information about the issues in the field, it allows for **TRUST** between downstream buyers and upstream producers to be built. This new relationship creates the fertile ground needed for transformation and can lead to important partnerships that improve environmental and social quality at the very source of the supply chain.

T: Transformation

This is actually the stage that the industry is now facing and certainly the most challenging step of the journey. There are more than 3,000 mills processing the world's palm fruits production, thousands of plantation companies, and millions of smallholders involved. Transformation is about solving deforestation and improving social practices at this large scale.

Over the last five years, and since Golden Agri-Resources (GAR) published its Forest Conservation Policy (FCP), the concept of HCS (High Carbon Stock) Forests has been developed to provide a practical and scientifically recognised methodology to identify forests in a landscape and plan development in a way that balances conservation and economic development.

The HCS methodology is an innovative tool for land use planning. (TFT produced a short video explaining what HCS is: http://www.tft-earth.org/stories/videos/faq-what-does-hcs-mean/).

Various pilots started in the field with valuable contributions from organisations such as Greenpeace and businesses (GAR, NBPOL, Cargill, GVL etc.). Its adoption in Asia Pulp and Paper (APP)'s policy in 2013 allowed for the tool to be implemented on over 2.6 million hectares, bringing learning and challenges to the table.

In September 2014, an independent HCS Steering Group was formed with the first objective to produce a practical toolkit that would allow any business to have guidelines on how to implement the methodology in the field. Valuable contributions were made by key NGOs such as Forest Peoples Programme and Rainforest Action Network, who reviewed the toolkit and made important inputs. The toolkit was successfully published in April 2015:

http://highcarbonstock.org/2015/04/high-carbon-stock-hcs-approach-steering-group-launches-toolkit-for-deforestation-free-plantations/

Case studies and pilots are being implemented by businesses in the field: http://highcarbonstock.org/case-studies/.

In any case, a successful "transformation" will rely on the good implementation of the HCS methodology in the field, i.e. developing a land use planning process that allows for reaching the right balance between forest conservation and economic development. The question then is *what is right?*

The HCS methodology provides a scientific way to approach a given area and integrate the social and environmental parameters in the planning of a given plantation be it palm, rubber or wood. But it's not enough. Land use planning cannot stop at plantation level. A landscape is made of a mixture of agriculture, rubber, timber, palm concessions, smallholder plots, forest reserves etc...and the whole is greater than the sum of its parts: land use planning only makes sense at landscape level.

Land use planning cannot be done solely by a company. It is the result of multi-stakeholder discussions to be held between companies, local communities, local and national governments and civil society in order to reach the balance that will feel right for everyone and allow for everyone to feel they own that planning and want to support it in the long term.

In parallel to the work on HCS, companies are beginning to tackle the "No Exploitation" part of their commitments. While protection of forests, peat and local peoples' traditional land rights are key to incorporate at the time of land clearing and new planting of palm trees, social practices and labour conditions are issues that are relevant to plantations of all ages. Acknowledging there are important ongoing labour issues and identifying them precisely is the first step.

The next step is to develop recommendations on what can be done to address the most common types of exploitation. To do so, TFT has been carrying out labour assessments and investing time in the field in deep discussions with its members to make sure there is enough mutual trust to speak openly about these problems that currently exist and begin to pilot appropriate actions to address identified problems. These essential first steps are key to then allow for solutions to be jointly developed and spread across the industry.

V: Verification

For many people, there is only one reliable form of verification, and that's an in-person audit, often performed as part of a certification standard. While certification audits can still be a way to verify the implementation of sourcing principles, we are increasingly seeing innovation in the verification sector.

The biggest shift in the verification space is brought by a change in context and that change is that the world has become more transparent. Humans are increasingly connected with one another through the internet. They have means to report and share real information, pictures, videos, opinions and feelings instantly. Everyone has the potential and access to be a reporter or activist, auditor, and informed consumer.

Some still genuinely believe that certification audits - performed by an auditing firm - of a given norm or standard should be the only way to verify what happens in the field. But the world is changing and that is allowing for truly independent third party auditing to emerge. For example, in the tourism industry there are so many labels, stars and standards that no one really knows or trusts them anymore.

Instead clients now look at sites like TripAdvisor, where users themselves rate and evaluate the hotel they stayed in. It has become increasingly difficult for hotels to lie and mislead clients by false promises, non-credible labels or shiny websites. The reality is relayed daily by users to other potential users, and that's how quality verification happens in the hotel sector. What an army of paid auditors the world would have needed if verification in the tourism sector had only been possible through certification led audits.

Of course, the palm oil industry is not the tourism industry and users don't interact with palm products as they interact with a hotel room. However, the context of transparency affects the palm oil industry in the same way and allows for true independent third party auditing solution to emerge:

Satellite imagery and other forms of remote sensing are monitoring the Earth's forest cover daily. It provides a picture of the actual land use change happening in the world (forest loss and forest gain). It is particularly innovative and useful as it provides a truly independent verification and a low cost ongoing monitoring (as it doesn't require the financing of experts to sites); at a high frequency (that human travel would simply not be able to cover). Global Forest Watch and FORMA alerts are examples of this kind of service.

In the most remote and rural parts of Africa, Kalimantan and the Amazon, communities now have mobile phones, recorders and increasingly Smartphones, which can capture video. With those, they record meetings, report on conflicts, capture GPS points where clearing is happening, report on human rights abuses and bring evidence directly on the web of what's really happening. Who can discuss visual and factual evidence? Rumours stop when a recording exists to confirm facts.

Local NGOs are increasingly active in monitoring what happens in the field. Groups like Greenomics for example in Indonesia are monitoring companies closely and holding them accountable to their commitments. Transparency and technology have opened the path to the development of innovative solutions that can verify No Deforestation and No Exploitation in the field at a low cost and with a high level of independence and participation.

Committed companies have also started to develop tools like dashboards to interact with their stakeholders (clients, NGOs, partners…) and report on progress. These platforms are designed to provide meaningful information about their supply chains and progress on policy implementation, in such a way that stakeholders can track it and provide input or raise concerns and see how those concerns are addressed.

Transformation: What's ahead?

Recent efforts by brands and their suppliers have brought visibility over the palm oil supply chain, making hundreds of mills visible to the world. The industry is now facing the challenge of effectively transforming practices on the ground: tackling exploitation and deforestation.

Prioritising to focus on landscapes

Some are advocating for brands and the industry to take what looks like being the logical next step. After traceability to mill comes traceability to plantation, assessment and then certification. While those steps can appear relatively logical, *we strongly disagree with that approach.*

Going in the field to map 100% of the world production of Fresh Fruit Bunches (FFB) and assessing the social and environmental practices of over 3000 mills, as well as those of the millions of smallholders and plantation companies that are supplying them is simply not physically achievable in a short time frame. The risk of getting bogged down for years collecting data about traceability to plantation is high. There are not enough human and financial resources available out there to do everything at the same time and with the same intensity.

Yet the *urgency* of dramatically improving labour conditions, solving social conflicts and halting deforestation is extremely high. Urgency doesn't mean rushing. Taking a step back to acknowledge the size of the task ahead is essential. The number of mills, plantations, social and environmental issues to be tackled is phenomenal. That's why it is key for palm oil industry players, their clients and partners to be extremely strategic about what transformation path and next steps are taken in order to ensure efficiency and scalability are built in from the start.

To do so we believe it is essential to ***prioritise work on those landscapes where deforestation, peat and exploitation issues are most pressing*** and where there is ***market leverage to drive change and direct resources*** towards supporting transformation on the ground. TFT and its members have been drawing on the five years of field assessments we have performed in plantations, mills and refineries to jointly develop what is now called the ART approach, which is presented on the following page.

Introducing the ART (Aggregator Refinery Transformation) approach

One of the key observations we made over the last three years which was further reinforced by the exercise of building traceability to mill was that the palm oil supply chain generally resembles an hourglass shape: upstream, thousands of plantations / mills supply a handful of first refiners or first aggregators of Crude Palm Oil (CPO), who then process CPO into basic ingredients or aggregate it for shipment to refineries in destination markets.

From the first refineries or aggregators, those basic ingredients are then shipped around the world to be either used directly as cooking oil or in product recipes or re-processed into more complex ingredients by second refiners, to finally be used by brands.

The natural narrowing of the supply chain at the point of aggregation provides an opportunity to *influence transformation on a given landscape*, as aggregators process oil from suppliers that are located within that landscape. Another key observation is that unfortunately deforestation, peat and exploitation issues are widespread in certain regions, and as such require an approach that can impact practices in many plantations at once. That is why the larger influence on the supply chains that aggregators bring is urgently needed.

TFT is supporting committed palm oil industry players to implement an approach that focuses on using the buying power of aggregators (palm oil refineries, crushers, ports etc.), to influence the way their supply of palm oil mills and any associated plantations are managed and thus, the way the associated landscape they are active in is managed. TFT calls this new approach the ART (Aggregator/Refinery Transformation) plan. With a large proportion of refineries globally having made commitments to abolish deforestation, peat land destruction and the exploitation of people, there is the impetus to drive transformation at this level.

Implementing ART

ART is an approach designed to empower each node in the supply chain to *take ownership of the transformation*. It also provides a framework to allow refiners, millers and growers to collaborate in overcoming widespread challenges and changing widespread practices (a.k.a. 'business as usual').

With refiners launching ART plans in a number of refineries in 2015 and 2016, a number of sourcing regions will be driving deep transformation at a landscape level, producing learning tools and innovations that will then be quickly applicable/replicable to other regions.

Below is a summary of how ART works:

Traceability:
Transforming a refinery's supply shed firstly requires knowing who is in the supply shed. Therefore ART is dependent on *mapping all the mills* and plantations supplying the refinery.

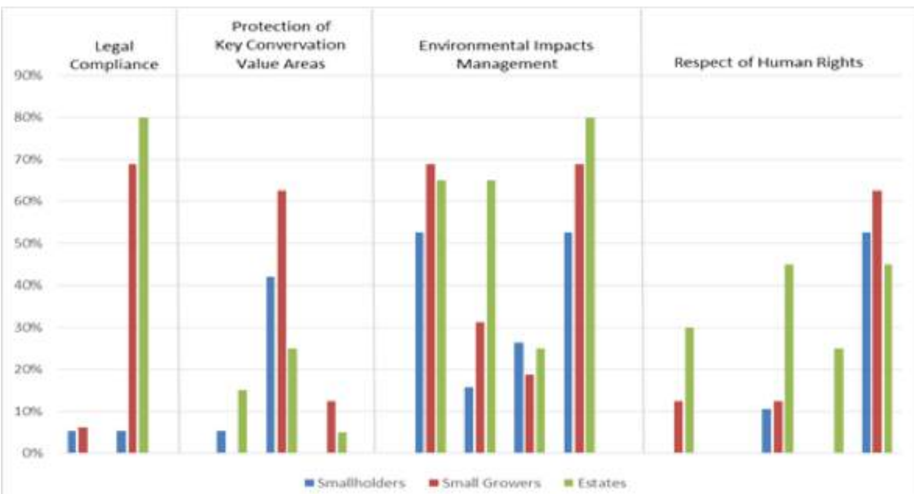
Mill Prioritisation and related action:
Typically 50 to 200 mills supply one refinery. It is materially impossible to carry out assessments everywhere at the same time. Publically available information such as social NGO reports, identified land use change, deforestation alerts highlight issues of concern and mills from such areas become high priority or *High Engagement Mills*. The rest of the mills supplying the aggregator then become *Low Engagement Mills*.

High engagement mills:

field visits are undertaken and practices are assessed against the aggregator's sourcing policy requirements. Importantly those field visits are not driven by a certification agenda, rather the visits seek to build the much needed trust and engagement for mills and provide practical recommendations for their FFB producers to improve practices.

Note: Some mills belong to a parent company that might be expanding its plantation area elsewhere. The engagement process will seek to address policy and practices in all of the mill parent company's operations.

An overarching report compiling all findings from the high engagement mills' field visits is then produced. From that report it is possible to identify trends of issues that are typical to the landscape / region / supplying basin and provides practical recommendations regarding what to look for and what could be done to make progress on the issues identified. Issues appearing in the overarching report may range from chemical use and storage practices to much more complex social conflict issues and labour practices.



Above: Example of a bar chart compiling anonymised assessment results into an overarching report, allowing for identifying key issues.

Low engagement mills:

Low engagement means those mills and their supplying plantations won't initially be physically assessed or visited. However they are fundamentally important in the transformation because low engagement mills and plantations will be the majority of mills in numbers supplying a given aggregator. Building trust through one on one engagement or regional workshops will enhance collaboration and allow for knowledge, toolkits, procedures and examples from other growers to circulate and contribute to driving change on the ground at a large scale.

We also recognise that some of these mills and plantations may not have any issues raised publically about them because they have already developed solutions that are efficiently addressing important environmental and social quality challenges, and we do want to learn from them about those. Solutions are already in the room and need to be shared, but can only be shared if the problems are identified and discussed between companies.

Monitoring and verification:
In order to be credible to those who buy the oil from the refinery or by other interested stakeholders like civil society, the ART plan will maintain a high level of transparency about how it progresses. As the ART plan is about driving transformation, reporting will include measurable progress of the aggregator's whole supply against the following elements: HCS, HCV, Peat (No Deforestation), community conflicts, labour practices, smallholder livelihoods, legality, and traceability to FFB).swiftly as possible.

Note: Traceability to plantation or to FFB will naturally emerge ***at the same time as transformation progresses***. The main objective is rapid scalable and efficient transformation at landscape level, not data collection about traceability to plantation.

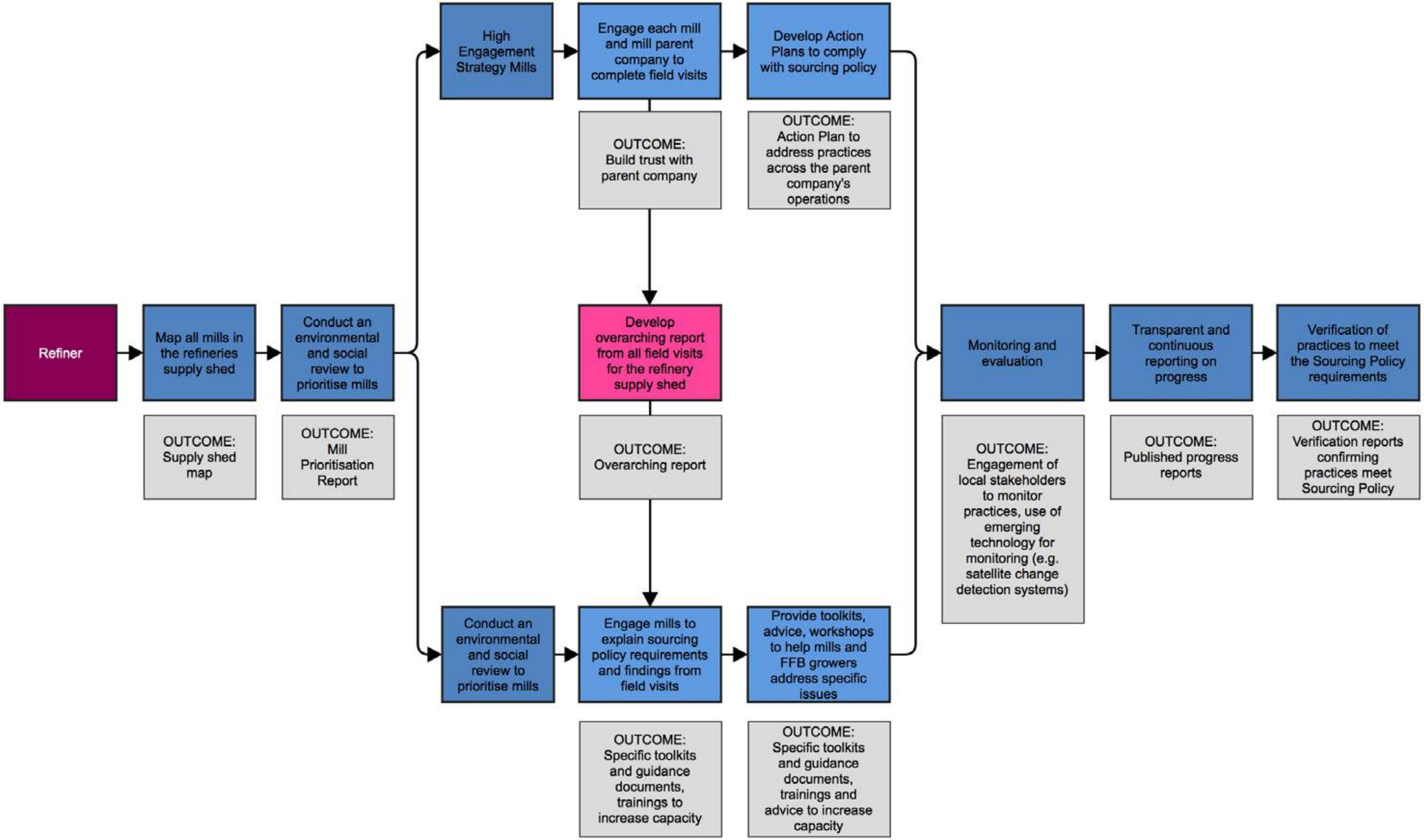
What ART is NOT about

ART is not about visiting every mill supplying the aggregator.
It's about doing in-depth assessments of key supplying mills to identify the most pressing environmental and social issues and then using that information to begin working with all the plantations and mills in that region to improve practices. The focus here is to share learning, skills and capacity building with the parent companies of plantations and the wider base of supplying mills and plantations, to ensure wider transformation at the landscape level. ART is about achieving scalable change with an efficient use of resources.

ART is not about seeking to segregate 'good' suppliers from 'bad.'
This is what traditional approaches seek to do: they first seek information about plantations to then pressure brands and aggregators to stop buying from X or Y. This leaves little chance for those plantation companies to transform and leaving the landscape exposed to the worst practices.

Traditional approaches inevitably lead brands and their suppliers to paying high premiums to segregate the good oil from the bad oil and develop strategies to avoid the problems. ART is about facing the issues by including suppliers into a change process through trust building rather than excluding them. That way segregation costs can be avoided and the worst issues can be tackled in priority.

ART Plan flow of activities



What can brands, donors and NGOs do to support the transformation journey?

While the drive of most of the transformation activities will come from committed refiners and their supplying mills, it is key for brands, donors and implementing partners to keep driving, supporting and monitoring that transformation journey and maintaining a close connection to the rapid changes taking place.

Brands

They need to make it clear to their suppliers that they want to know where the palm oil they buy comes from. Thanks to this demand, the opacity around the origin of palm oil has been lifted and traceability to mill has been made possible. While we understand it would appear logical to now seek traceability to plantation we think that would be highly counterproductive.

This is because it would divert refiners and their suppliers from working on transformation in the mills they have the most influence over, which is the opposite of what their policy is aiming for. Instead of spending energy in driving transformation by developing better land use plans in priority regions, everyone would start spending time and energy collecting information about traceability to plantation on the whole palm oil supply. It is key for brands not to ask for 100% traceability to plantation as the next step but instead, demand increasing plantation traceability numbers alongside increasing transformation and policy compliance progress.

When we take a look back at the progresses made by the palm oil industry and its stakeholders, (including users and brands), over the last few years, it is striking to see how fast and strong everyone has moved. Those progresses were essentially made because ***higher levels of trust and collaboration*** were built between buyers and suppliers, mostly between brands and their supplying refineries/processors.

The transformation strategy that TFT and its members have been developing (ART) allows for that same ***trust*** and collaboration to be built along the process between aggregators/refiners and their supplying growers. From that fertile trust innovation and the needed common ground and subsequent ownership needed to develop efficient solutions will emerge.

Brands can support that trust building process by not sending demands that would hinder that collaboration. Asking to segregate the good from the bad oil for example is typically what would exclude those millers and growers who need the most engagement, training and support on transformation from entering into such a discussion with their clients.

Brands have the unique opportunity to engage in constructive discussions with their suppliers and jointly look at the ART plans being selected, and how their oil supply is connected to those pilot refineries.

To support those suppliers that are providing transparent information about progress, brands can innovatively direct funds, market share or any type of incentives they judge adequate to support the implementation those ART Plans. For example, some brands have decided to dedicate funds to smallholder programs to support their inclusion in those transformation plans. Finally, we believe the trust between brands and consumers or brands and NGOs can also be strengthened by making sure progress updates are made publically transparent on a regular basis.

There are four key questions a brand can answer to characterise its progress:

1. Do I know where my raw materials come from and who provides them to me? (Traceability indicators)
2. Do the companies that produce my raw materials and deliver them to me share my goals/values for how it is produced? (Policy indicators)
3. Are the companies who provide my raw materials changing practices to meet my/their policies? (ART progress)
4. Do I trust that the companies providing my raw materials are actually doing what they say they are? (Transparency and Verification)

Donors

Because the ART plan implementation will trigger discussions around land use plans at the landscape level, there will be a need to bring the various private sector, community, and civil society and governments players together. Only through robust multi-stakeholder discussions can viable landscape plans be agreed and adhered to over time and those discussions will need funding and support. Some of those discussions are already taking place in Indonesia.

In parallel, as there is a shortage of skilled professionals to undertake HCV and HCS assessments facilitate FPIC processes, or support conflict mapping and mediation, training is urgently needed. To address this need, TFT is setting up the CSE (Centre of Social Excellence) in Indonesia after seven years of existence and successful implementation of the CSE in Africa.

The objective is to train young local professionals who can then facilitate the FPIC process, carry out high-quality social impact assessments, conflict resolution processes, and develop strong labour programs that respect workers' rights.

See http://www.tft-earth.org/stories/videos/cseafrica/

CSE Indonesia will be launched in August 2015 with the support to key TFT members and the Monaco Foundation. Finally, there is an enormous need to support innovative ways of verification and monitoring. In particular, strengthening of local NGOs in better monitoring company commitments in the field is essential. TFT is participating in the launch of a dedicated initiative that will contribute to this and that will be called *Grassroots*.

NGOs

Scorecards are one of the tools used by NGOs to assess and stimulate company progress. Marks and ranking are indeed incredibly powerful and closely followed by businesses, especially consumer facing brands. However, they need to evolve from where they are today otherwise they could become counterproductive if they drive brands in the wrong direction.

Scorecards that still use the amount of Greenpalm certificates purchased, or the volume RSPO certified oil bought, are obsolete and mislead brands into investing money in offsetting or segregating costs instead of investing in transformation. While RSPO can be one of the ways to verify compliance with some elements of the brands' policies, it is certainly not the only one.

Keeping those criteria as major elements to rate a company's progress will hinder and slow innovation in the supply chain. Instead, scorecards should include new elements like level of transparency, regularity of the reporting, level of traceability, level of compliance, level of engaged suppliers with action plans to meet compliance, and results from truly independent monitoring through remote sensing or local stakeholder reporting. Companies can also be judged by how they are supporting transformation in the field.

Conclusion

Two years ago we were concluding our first paper "Lessons learned on palm oil" by the following sentence: "Retailers and manufacturers must demand traceability as a first step", recommending that the effort brands and retailers were making to buy Greenpalm certificates should be transferred into supporting the task of getting traceability to mill. We knew traceability to mill wasn't technically a complicated task.

At the time, even we were surprised that brands, processors and refiners took such a high level of ownership in driving this process, achieving rapid progress and going even further by making their list of mills public. This happened in only two years time and the incredible domino effect that followed – not only in palm (but now expanding to soy, rubber etc.) – carries an immense hope for the world, despite what naysayers and pessimists sometimes say.

As we conclude this third update we are very enthusiastic about what's ahead, although still conscious of the size of the challenge we are all facing. We are like a hiker whose life's ambition is to climb Mount Everest, who is now sitting at base camp one, ready to climb. We know it's going to happen, but still face the challenge of getting to the summit. We know the current movement can halt deforestation and change the lives of so many people, but it still needs to happen. There are still many challenges to be tackled. Everyone is required to contribute and work differently.

Brands are challenged with how to communicate beyond certification, talking about their responsible sourcing journey in a transparent way.

Industry players are facing the challenge of dedicating resources to implement their policies, supporting their suppliers on their change journey while maintaining access to the volumes of oil they need to run their refineries profitably.

Millers need to figure out how to engage with growers and smallholders to develop land use plans that draw upon quality HCS and HCV studies.

Growers are grappling with the challenge of finding the right staff to implement a robust FPIC process and ensure labour rights are respected.

Governments are seeking the right balance between development and conservation.

NGOs want to see how to best measure progress and how to verify claims made by brands.

Implementing partners are looking for the right staff to perform the numerous field interventions they are being hired for.

But climbing Mount Everest is not known for being an easy task. However, as trust and collaboration between all stakeholders increases, ownership and innovation will emerge. With everybody working together towards the goal of reaching the summit we are confident the chances of us getting there vastly increase.