

HAFL Master's Thesis Abstract

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Title: **The Malaysian Palm Oil Sector- an Environmental Governance Analysis**

English Summary:

The oil of the oil palm (*Elaeis Guinensis*) is known for its impressive productivity. An oil palm can produce 3 to 4 times more oil compared to rapeseed, sunflower or soy. Palm oil can be used in food and non-food products which makes its replacement almost impossible. This wide range of applications has led to a boom in palm oil production starting in the 90ies in Malaysia and Indonesia.

Nowadays, Malaysia and Indonesia account for 85% of the world's palm oil production. This rapid growth has contributed to economic and rural development in both countries. However, this developments have also gone hand in hand with negative environmental and social impacts. Amongst the most important environmental impacts biodiversity loss, water pollution from palm oil mill effluents (POME), illegal or legal deforestation and the occurrence of fires as well as the destruction of peatlands for palm oil plantations can be named. Regarding social impacts land conflicts as well as the violence of indigenous customary land rights are often the case.

These impacts lead to the development of a set of different sustainability standards and policies, of which the Round Table on Sustainable Palm Oil (RSPO) is one of the most adopted standards. Other policies developed in the Global South such as the mandatory Indonesia Sustainable Palm Oil Standard (ISPO) and the Malaysia Sustainable Palm Oil Standard (MSPO). In addition, other international sustainability schemes such as the ISCC and the RED II policy exist. These different standards, policies and regulations can be summarized under the term "environmental governance", whereas it needs to be distinguished between public and private environmental governance.

The palm oil value chain as such is a complex matter. It consists of a large supply base, concentrating on a handful of processors and, again, widens into a huge number of consumer good manufacturers before the end consumers are reached. Furthermore, the supply base is characterized by large-scale plantations but also by small-scale farmers who are often excluded on the existing sustainability governance schemes. These facts make the governance of the palm oil sector and the palm oil value chain complex.

This thesis aims at analyzing the environmental governance sector in Malaysia. Furthermore, Switzerland was taken as a case study in order to understand the international influence of trade on the environmental governance system. The different policies, standards and regulations were explored to find harmonization possibilities and to define the role of the

different actors in the environmental governance system. In order to carry out this analysis a systematic literature review was conducted, followed by in-depth expert interviews.

The results show that the role of the individual actors is quite well defined. Companies have either their individual sustainability commitments or adopt those of other stakeholders such as the RSPO. On the one hand the RSPO is a multi-stakeholder private sustainability initiative whose aim is to strengthen environmental and social sustainability in the palm oil sector. On the other hand there are public standards such as the MSPO or ISPO which are mandatorily implemented for all involved members in the Malaysian and Indonesian palm oil industry. NGOs play an important part to raise awareness about environmental and social issues and provide advice to policy makers and the private industry. International actors such as the EU and Switzerland also play an important role in sustainability standard setting. The EU is an important trading partner but its demand of palm oil is decreasing due to the ban of palm oil as a bio diesel ingredient. Furthermore, its sustainability requirements are higher than the MSPO standard which is often criticized. Also Switzerland has its sustainability requirements and reached a historical step in trade history by signing a free trade agreement with Indonesia which contains so-called production and processing (PPM-based) methods fixing certain sustainability criteria for the import of palm oil from Indonesia. However, there are factors hindering the implementation of environmental governance measures.

Implementation and adoption of private standards such as RSPO is the big challenge. As long as this standard remains voluntary the adoption will be low. Political enforcement is therefore necessary in order to reach a satisfactory result. Furthermore, price premiums do not reach the intended households as only 50% of RSPO certified palm oil is actually sold under that label. This results in an over production of sustainable produced palm oil which disappears on the world market. Monitoring is another issue concerning private and public environmental governance systems. The proper monitoring of private and public sustainability standards cannot be ensured. Often credible and transparent traceability systems are lacking and human resources controlling the implementation of the standards in practice are not available. The third-party audits carried out ensuring quality and evaluate the standards often do not provide the intended and expected results. Negative publicity about palm oil makes consumers skeptical about that crop which leads to decreased demand in Western consumer countries. This is especially due to land conflicts and indigenous rights disputes as well as to other environmental impacts. Furthermore, existing mistrust of all involved parties along the value chain does not contribute to a good perception of the image of palm oil in Western consumer countries.

Yet, there are promising possibilities to be taken in order to contribute to a positive and sustainable palm oil future. Oil palms are very productive and therefore important for the future production of vegetable oils. The complete shift to other oil seeds or oil plants is not a solution due to higher surface requirements. Furthermore, political enforcement of private sustainability standards could increase the adoption of such standards for private but also for public procurement actors. Also other private labels besides RSPO exist taking into account even stronger environmental standards. Double certification of palm oil with these standards in combination with RSPO or MSPO could lead to a quality-oriented competition in the palm oil certification system and therefore contribute to the harmonization of the whole environmental governance systems. Also trade agreements with PPMs in place are not to be underestimated.

There are ways to make the future of the palm oil industry more sustainable but policy dialogue with all actors along the entire supply chain is required. However, shifting the responsibility of sustainable sourcing to private businesses is not the solution.

Keywords: environmental governance, palm oil sector, global value chains, sustainability initiatives, food and non-food industry

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