The Economist

June 26, 2010

U.S. Edition

**The other oil spill;**

**The campaign against palm oil**

**SECTION:** BRIEFS

**LENGTH:** 2883 words

**HIGHLIGHT:**      **Palm oil** and sustainability

**Palm** **oil** is a popular, cheap commodity, which green activists are doing their best to turn into a commercial liability. Companies are finding them impossible to ignore

EARLY on April 21st 2008, Greenpeace activists dressed as orang-utans stormed Unilever's headquarters in London. Similar raids took place at the multinational's facilities on Merseyside, in Rome and in Rotterdam. Furry protesters scaled buildings, occupied production lines and unfurled banners. Many read: "Unilever: Don't Destroy the Forests". Dove, one of the company's best-known brands, was singled out by name.

The tactic was a simple one, intended to draw attention to the damage done to Indonesian tropical rainforests by the production of **palm oil**, an ingredient in many of Unilever's products. It was also effective: soon after the orang-utan invasion the company said it would draw all its **palm oil** from "sustainable" sources by 2015.

The charges against **palm oil** are serious: environmental groups regard it as a danger not only to Asian wildlife but also to the health of the planet. Between 1967 and 2000 the area under cultivation in Indonesia expanded from less than 2,000 square kilometres (770 square miles) to more than 30,000 square kilometres. Deforestation in Indonesia for **palm oil** and illegal logging is so rapid that a report in 2007 by the United Nations Environment Programme (UNEP) said most of the country's forest might be destroyed by 2022. Although the rate of forest loss has declined in Indonesia in the past decade, UNEP says the spread of **palm-oil** plantations is one of the greatest threats to forests in Indonesia and Malaysia.

In Sumatra and Borneo, **palm-oil** expansion threatens elephants, tigers and rhinos, as well as orang-utans. Enormous amounts of carbon dioxide are released as forests and peatlands are destroyed. Deforestation makes Indonesia one of the world's largest carbon-dioxide emitters. On the bright side, it is true that **palm oil** has contributed to economic growth in the countries that produce it. But even that has been tarnished in some cases by social conflict, for example when locals or indigenous groups have been turfed off their land to make room for plantations.

Such matters are increasingly difficult for buyers of **palm oil** to ignore. Even though it takes only 4% of the global total, Unilever is the world's biggest buyer, making it an obvious target for activists. Kraft and General Mills, two big American food companies, HSBC, a huge bank, and Cargill, an American agribusiness giant, have also come in for criticism. In the past few months, Nestlé, another food giant, has been attacked in a spoof online advertisement that shows an office worker eating a finger of KitKat. The chocolate digit turns out to belong to an orang-utan, with bloody consequences.

These attacks are proving potent. Companies are changing their buying policies in response, and paying more attention to the distant reaches of their supply chains. And the lessons may reach far beyond **palm oil**. With oil of a different type continuing to spew into the Gulf of Mexico, companies' environmental responsibilities have never been more public.

The **palm-oil** story started in 1848, when it was discovered that the oil palm, a native of West Africa, grew well in the Far East. Its giant bunches of red fruits are rich in oil that proved useful in soap and later as a lubricant for steam engines. Demand grew, and plantations sprouted in Malaysia in the 1930s. As the industry matured, cultivation spread to Indonesia. These two countries today produce 90% of the world's **palm oil** (see chart 1 on the next page).

These days it is used in a vast array of food and consumer products, from peanut butter, margarine and ice cream to lipstick and shaving foam. **Palm** **oil** makes shampoos and soaps more creamy. WWF, an environmental group, says it is used in 50% of all packaged supermarket products. It is also a common cooking oil across Asia. It is becoming more popular as a biofuel. Laws that encourage the use of biofuels are adding to demand.

Rising demand has pushed up the price of **palm oil**. Although it is lower than it was during a surge in vegetable-oil prices a couple of years ago (see chart 2), the average price in 2010 has been around $800 a tonne, says Siegfried Falk of Oil World, a firm of analysts. Oil World forecasts that global production will reach a record 46.9m tonnes this year, up from 45.3m in 2009, with most of the increase coming from Indonesia.

The oil palm is an efficient crop, yielding up to ten times more oil per hectare than soyabeans, rapeseed or sunflowers. On 5% of the world's vegetable-oil farmland it produces 38% of output, more than any of these other crops. Any substitute would need more land. Its bounty makes it relatively cheap.

For years, worries about **palm oil** have been contained within an organisation called the Roundtable on Sustainable **Palm Oil** (RSPO). Set up in 2004, the RSPO involves growers, processors, food companies, investors and NGOs. Its purpose is to prod the industry into producing "sustainable" **palm oil**--ie, certified as not having involved the destruction of areas of high conservation value. But the supply of certified oil has grown slowly, perhaps because producers have to commit themselves only to certifying a portion of their crop as sustainable. Demand for certified oil has been sluggish, too: in the first year of trading only 30% of the sustainable oil was sold as such. This year has been better. Vengeta Rao, secretary-general of the RSPO, says most of the 2m tonnes produced has been sold in recent months.

Another problem is that the RSPO has struggled to create any effective action on setting standards for greenhouse-gas emissions associated with **palm-oil** plantations. Its critics have nicknamed it "Really Slow Progress Overall", and its members account for only 40% of **palm-oil** production. Environmental campaigners have become increasingly impatient with it.

Gavin Neath, senior vice-president of communications and sustainability at Unilever, says the problems started several years ago when Greenpeace published a report that made a number of accusations about some of its **palm-oil** suppliers. It ended up, he says, with people in orang-utan suits "climbing our buildings".

Since Unilever committed itself to using only **palm oil** certified as being from sustainable sources, more than 20 big companies--including Procter & Gamble, Unilever's great rival, and Mars, a confectioner--have followed suit. But Greenpeace wanted Unilever to go further, and stop buying **palm oil** from producers the NGO believed were breaking the law. It wanted the company to convince suppliers to behave better by threatening the loss of a big contract. So Unilever looked into its supply chains.

The news was not good. Mr Neath said more than a year ago, "We found that, in one way or another, all of our suppliers have technically infringed either RSPO standards or Indonesian law. It isn't as easy as saying just pick the best, we can't. We are not in a position to do that. The industry almost certainly has to go through fundamental change."

Mr Neath added that because **palm oil** had so many uses, not even Unilever had much leverage. By December 2009 Greenpeace had pushed Unilever into further action. The NGO made fresh allegations: that SMART, a **palm-oil** producer, a member of the RSPO and a part of Sinar Mas, an Indonesian conglomerate, was involved in illegal deforestation and clearance of peatland. Unilever, in response, suspended purchases from SMART, which has since commissioned an independent audit of the allegations.

Nestlé, too, thought it was safe. It was a smallish buyer and a member of the RSPO, with a **palm-oil** policy in line with the industry standard. It was also buying some sustainable oil, but like many others did not plan to buy all its oil this way until 2015. Interviewed before the anti-KitKat video featuring the orang-utan's finger appeared, José Lopez, who is responsible for manufacturing and supply chains, said that although deforestation was a worry, Nestlé used only 320,000 tonnes of **palm oil** a year. He added that the criticism of KitKat was frustrating because you would have to "look through a microscope" to find the **palm oil** in the snack.

However, like Unilever, Nestlé had two weak spots: a much-loved global brand and insufficient knowledge of its supply chain, although in other areas it prided itself on its relationships with and knowledge of growers. Its suppliers included Sinar Mas. On May 17th, after a clumsy attempt to bury the nasty spoof KitKat video (which merely increased the cacophony of online protest), Nestlé buckled. The video had been viewed 1.5m times and prompted 200,000 e-mails of protest.

Nestlé said it had "suspended all purchases from Sinar Mas, which has admitted to mistakes in the area of deforestation." The campaign, says someone close to the affair, was a "wake-up call" for Nestlé. Speaking about the video, Daniela Montalto of Greenpeace said, "We had been asking Nestlé to stop buying products from rainforest destruction for two years before we launched our campaign. Nestlé cracked within just two months because the overwhelming public response made the company listen."

In fact in response Nestlé went further than any company had gone before. It undertook to exclude companies running "high-risk plantations or farms linked to deforestation" from its supply chain. To make this happen, Nestlé has recruited the Forest Trust (TFT), a charity based in Switzerland, to provide an independent review of its **palm-oil** supply chains, right down to ground level. Every supplier will be audited for evidence of illegal activity.

TFT's executive director, Scott Poynton, says his group fills a gap that the RSPO cannot do as it is free to criticise any bad practice. However, the RSPO's Mr Rao says that if hard evidence is found by independent auditors investigating allegations against RSPO members, such as digging up rainforests, memberships may be terminated. This would be a first for the organisation.

Such dramatic developments do not mean that the greens have won the battle for sustainable **palm oil**. Despite a few victories over well-known buyers, in parts of the industry environmental concerns are barely noted. In particular, the campaigns have focused on Westerners, not on Asian users.

Moreover, even verifying the sustainable **palm oil** on the market is difficult. Big companies all buy from processors and traders, rather than directly from plantations. In an ideal world, plantations and mills would be certified as sustainable, and the oil they produce would be shipped separately. But this is expensive, say people in the industry, so there is no large-scale segregation of supply: if plantations produce oil certified as sustainable, it gets mixed in with the rest. In the same way that wind farms supply national grids, and sell renewable electricity, producers are able to sell on the certificates that show how much sustainable oil they have made. Sustainable oil could perhaps be sold at a premium--but this would be difficult to maintain in commodity markets, because sustainable and unsustainable oil are physically identical.

Might it be possible simply to use less **palm oil**? Perhaps, but it would be costly to replace. Nevertheless, Lush, a niche British cosmetics company, has done away with it altogether and uses (among other things) coconut oil instead. There is "no such thing as sustainable **palm oil**: it doesn't exist," says Lush's campaign manager, Andrew Butler. Some food companies, such as Findus, Mars and Marks & Spencer, are reducing use of **palm oil** but say this is for nutritional reasons (**palm oil** is a saturated fat).

Because of **palm oil's** connection to deforestation, environmentalists are unlikely to reduce the pressure on companies that use it. WWF publishes an annual scorecard of the **palm-oil** policies of 59 European companies. At the bottom are companies such as Danone, a French dairy-goods company,  and E. Leclerc, a hypermarket chain. Some, such as Aldi, a German retailer, and Géant Casino, another French hypermarket group, decline to answer questions about their **palm-oil** policies.

The Forest Footprint Disclosure project, supported by the British government and several charitable foundations, has just started an annual call for companies to indicate the extent to which their procurement policies for **palm oil**, soya, timber, beef, leather and biofuels are linked to deforestation. In the first year most companies chose not to respond. However, the project has the endorsement of institutional investors holding assets of $4 trillion. These sign a letter requesting disclosure, which will be sent annually to several hundred companies. This might become influential, especially now that the Gulf of Mexico oil spill has focused fund managers' minds on environmental risks. In June a group of British MPs of green inclination called for pension funds to be forced to reveal more about such risks.

Furthermore, deforestation has arrived firmly on the agenda of international bodies such as the World Bank and the UN, as well as of the European Union and national governments, including America's, Britain's and Norway's. For example, a new European law to ban illegal timber from the EU looks likely (with help for poor countries to comply). The EU may also have to revise its targets for biofuel use in the light of reports that **palm oil** (and other oils) fails to meet standards of reducing emissions by 35% compared with a litre of fossil fuels.

Greens have learned to appeal to governments' protectionist tendencies. Earlier this year the Nature Conservancy, an American green group, took representatives of America's National Farmers Union and the American Farmland Trust on a trip to Brazil to see how illegal forest clearance was "hurting US businesses by flooding markets with cheap and unsustainable products". A new report from David Gardiner & Associates, a consultancy, says the 13m hectares of mostly tropical forest that are lost annually allow the large-scale and low-cost expansion of timber, cattle and agricultural production. The report argues that policies to conserve rainforests would boost American agricultural revenue by as much as $190 billion-270 billion between 2012 and 2030.

Some companies may still take the view that decisions about buying **palm oil** are purely a matter of cost--a comparison of the price of oil from a sustainable source with that of buying the stuff from anywhere. But as the political pressure rises, the financial calculus changes.

There are other forces at work besides pestering from greens and governments. One is attitudes within companies. Mr Poynton believes an important reason why Nestlé changed its policy was the opinion of its staff. For years companies have been saying that a commitment to corporate social responsibility (CSR) can improve the quality of staff that they can recruit. It follows that these recruits then care about the behaviour of the company that employs them.

The public, too, expects more of companies these days. At a conference on CSR in London in June, David Jones, head of Havas Worldwide, an advertising company, said that whereas in the previous decade the point of CSR had been to create a competitive advantage, the new era of social media meant a shift of emphasis to limiting the damage that could be done to a company. All firms, he said, will have to demonstrate transparency and authenticity. The **palm-oil** episode provides a good example of how greens can use social media to make consumers aware of what goes into the products they buy. Fearful of losing sales, companies have responded.

It is not only companies that are being pressed. Helped by $1 billion from the government of Norway, Indonesia has taken action. A month ago the Indonesian president announced a two-year moratorium on new concessions to clear natural forests and peatlands. Indonesia will also set up its own certification body, a rival to the RSPO, which is expected to impose obligations on producers who are not members of that organisation.

Some argue that the **palm-oil** industry can continue to expand in Indonesia through productivity gains and the availability of grassland or previously deforested land. That remains to be seen, because hitherto the finance for **palm-oil** plantations has come from the sale of cleared timber. And because **palm oil** is an important source of calories and income for the poor, there is a great deal at stake.

What happens from now on will depend on whether pressure is kept up on all parts of the industry. Clearly, the industry would not have moved so far, so fast, without pressure from green activists. Several companies have learned that they are vulnerable, politically and therefore commercially, when they do not control the distant ends of their supply chains. That applies not only in South-East Asian **palm-oil** plantations but in many other places too: in sweatshops employing young children, or in Chinese factories where workers take their own lives. Mr Poynton may be overstating the case when he says: "Most of the environmental and social issues are embedded in products at extraction, at the resource level." But he is surely right when he adds: "It is no longer possible to ignore that end."