

1.

STRATEGY REPORT ON CHINA SUSTAINABLE PALM OIL

Table of Contents

EXECUTIVE SUMMARY	2
1. OVERVIEW OF THE GLOBAL PALM OIL INDUSTRY	4
1.1. PALM OIL OVERVIEW	4
1.2. GLOBAL PALM OIL PRODUCTION AND CONSUMPTION	6
2. OVERVIEW OF CHINA'S PALM OIL INDUSTRY	8
2.1. PALM OIL IMPORT IN CHINA.....	8
2.2. PALM OIL CONSUMPTION IN CHINA	10
3. CHINA PALM OIL VALUE CHAIN	11
3.1. FINANCIAL INSTITUTIONS (INSTITUTIONAL INVESTORS, BANKS, ETC.)	14
3.2. REFINER/TRADER/DISTRIBUTOR	16
3.3. MANUFACTURER AND RETAILER	17
3.4. GOVERNMENT AGENCIES AND INDUSTRY ASSOCIATION	18
3.5. THE INTERNATIONAL ORGANIZATION, CIVIL SOCIETY ORGANIZATION AND RESEARCH INSTITUTE.....	21
4. SUSTAINABLE PALM OIL	26
4.1. ENVIRONMENTAL IMPACT OF PALM OIL PLANTATION	26
4.2. DEVELOPMENT OF SUSTAINABLE PALM OIL.....	27
4.3. CHALLENGES FACING SUSTAINABLE PALM OIL IN CHINA.....	31
5. STRATEGIC RECOMMENDATIONS TO PROMOTE SUSTAINABLE PALM OIL IN CHINA	37
REFERENCE	46

Executive Summary

Over the past decade, global palm oil production has grown faster than other vegetable oils. In China, palm oil has become the second most consumed vegetable oil after soybean oil. In 2019, China imported 7.2 million tons of palm oil, becoming the third-largest palm oil importer after India and the European Union.

The palm oil industry is an important economic driver in producing countries but at the cost of tremendous environmental devastation and human rights abuses.

With the increasing awareness of sustainable development, stakeholders along the palm oil value chain have begun to work towards sustainable palm oil. These efforts include the establishment of sustainable certification standards such as RSPO, the practice of green supply chain, and consumers' awareness-raising

campaigns.

Compared with the EU and the US, China is still in its infancy in promoting sustainable palm oil. From the production side, China's palm oil industry involves a large number of stakeholders, thus makes it difficult to allocate responsibilities and financial costs along the value chain. Meanwhile, China lacks mandatory standards, guidelines, and/or policy signals, resulting in insufficient motivation for companies to purchase and use sustainable palm oil. From the consumers' perspective, Chinese consumers do not have enough knowledge about sustainable palm oil, and some consumers have a negative perception of palm oil. Civil society organizations have not yet come together to force the use of sustainable palm oil.

We have witnessed non-market conditions favorable for sustainable palm oil

development in China in recent years. The Chinese government has stepped up its advocacy for sustainable development, including the practice of ecological civilization construction, commitment to its climate pledges, and the promotion of the Green Belt and Road initiative (BRI). The upcoming 15th Conference of Parties to the Convention on Biological Diversity (COP 15) in Kunming will be an important opportunity for China to strengthen its biodiversity commitment and take a lead within the international community.

Based on quantitative information such as trade data as well as qualitative interviews with various stakeholders, this report

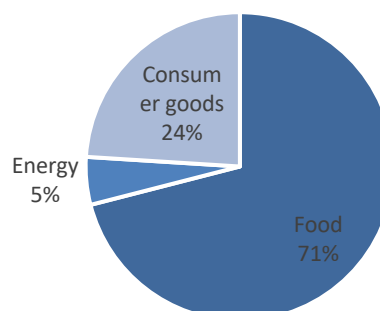
analyzes the current development of China's palm oil industry and the challenges facing the development of sustainable palm. The report also puts forwards suggestion for different stakeholders: for NGOs and government agencies, we suggest that they form a joint force to raise public awareness and formulate corresponding policies; for companies, we recommend strengthening the construction of incentive mechanisms, identifying leading companies, and adopting a step-by-step approach; for financial institutions, we propose strengthening ESG management, conducting case studies and benchmarking, and joining relevant international initiatives

1. Overview of the global palm oil industry

1.1. Palm oil overview

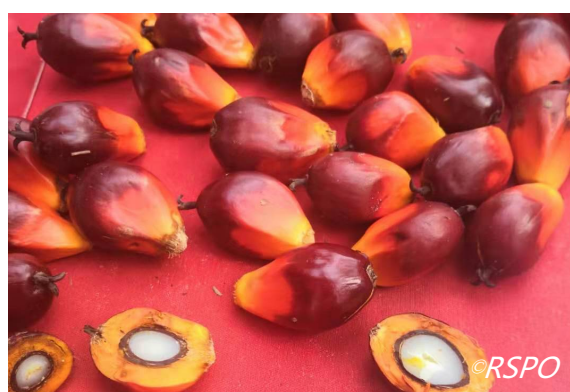
Palm oil is a vegetable oil that comes from the fruit of oil palm trees. Two types of oil can be produced: crude palm oil comes from squeezing the fleshy fruit, and palm kernel oil comes from crushing the kernel. Besides, there are palm oil derivatives obtained through industrial processes, which account for about 60% of global palm oil use.

Palm oils with melting points of 24, 33 and 44 degrees can be obtained as required through fractionation. Versatility is a major advantage of palm oil. It can be used in a wide range of industries including food, personal care, cosmetics, oleochemical, transportation, etc.



(Source: AGEb)

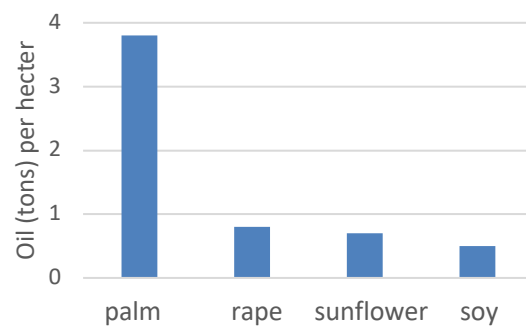
Figure 1 Global palm oil usage



In addition to its wide usage, palm oil is the most efficient oilseed crop in the world. The oil palm has an economic life span of 25 to 30 years. It takes about four years for oil palms to produce fruits suitable for harvest. Each fruit can contain up to 25-30% of oil. The yield of oil per hectare can reach 4 tons, which is equivalent to more than

500 kg of oil per *mu*¹, the highest yield compared to other oil crops. Among major oilseed crops, oil palm accounts for the smallest percentage (5.5%) of all the cultivated land for oils and fats globally but produces the largest percentage (32%) of total output. It uses less than half the land required by other crops to produce the

same amount of oil (EPOA, 2019).



(Source: EPOA)

Figure 2 Comparison of different crop yields

¹ Mu is the unit of area used in China. 1 Mu

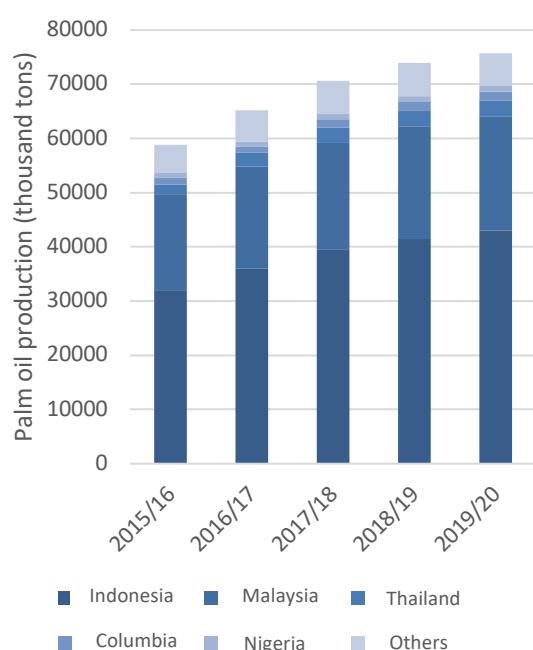
corresponding to 1/15 ha

1.2. Global palm oil production and consumption

Palm oil (35%) is the second most-consumed vegetable oil (OECD-FAO, 2019) after soybean oil (55%). In the past decade, global palm oil production has grown faster than other vegetable oils and is projected to continue to grow. Indonesia and Malaysia are the two largest palm oil producers. Palm oil production of these two countries accounts for more than 80% of global production. In 2019, global palm oil production totaled 75.694 million tons, of which Indonesia produced 43 million tons and Malaysia produced 21 million tons.

(Source: USDA)

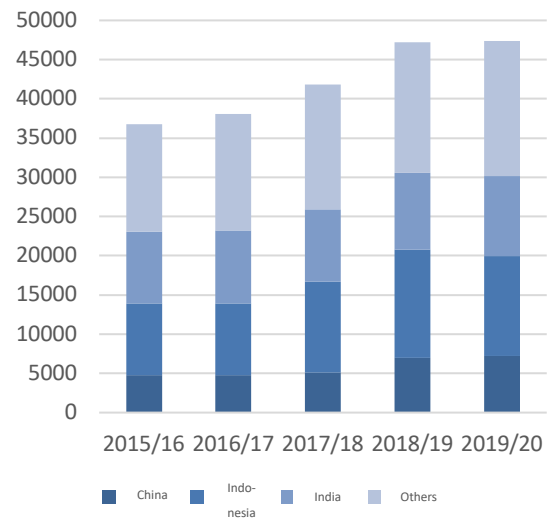
Figure 3 Palm oil production



Major palm oil producers see palm oil as a poverty-reduction scheme, and international finance organizations view it as a growth engine for developing economies. The International Monetary Fund (IMF) has pushed Malaysia and Indonesia to produce more (The Guardian, 2019). In these two countries, more than 4.5 million people make a living from the palm oil industry.

Along with increasing production, global palm oil consumption continues to rise steadily. In 2019, global palm oil consumption exceeded 74.7 million tons, an increase of 1.4% from 2018. Indonesia is the largest palm oil consumer, which consumed 12.75 million tons of palm oil in 2019, accounting for 17.1% of global consumption, followed by India, with 10.185 million tons consumption,

accounting for 13.6% of the world's total; the third is China, with 7.22 million tons consumption, accounting for 9.7% of the global total.



(Source: USDA)

Figure 4 Palm oil consumption

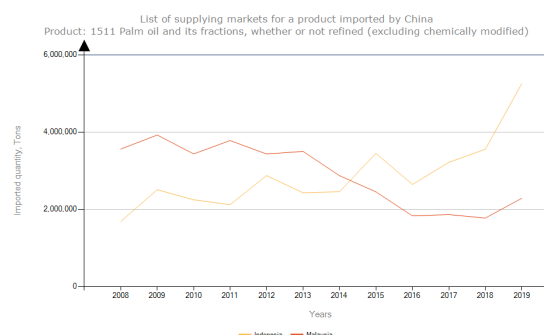
2. Overview of China's palm oil industry

2.1. Palm oil import in China

China's oil palm plantation is limited to Hainan Province and is used for ornamental purposes only. China's palm oil supply depends on imports. In early 2006, the state relaxed control on palm oil import, canceled import tariff quotas, and implemented automatic import license management. Before 2015, a large number of domestic palm oil trading companies participated in trade financing and the number of imports increased year after year. After 2015, with the tightening of banks' financing for commodity imports, trade financing was restricted, and some importers withdrew from the market, which drives flat growth of palm oil import since 2015.

China's palm oil mainly comes from Malaysia and Indonesia. In 2015, Indonesia surpassed Malaysia and became China's largest palm oil exporter. Now palm oil has

become the second most-consumed vegetable oil in China.

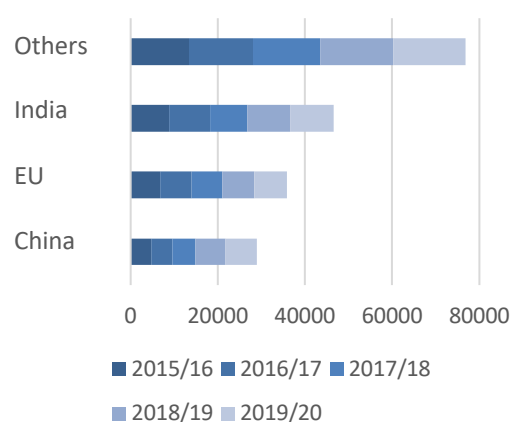


(Source: ITC Trade Map)

Figure 5 2008-2019 China palm oil import from Indonesia and Malaysia

US Department of Agriculture (USDA) data shows that China's palm oil imports in 2019 reached 7.2 million tons, becoming the world's third-largest palm oil importer after India and the EU, with imports accounting for about 13.8% of the global total and a yearly growth rate of about 10%. This increase may be related to the decrease of soybean imports due to the US-China trade war and the Africa swine fever, as well as EU's move to restrict palm oil imports. However, the outbreak of the novel

coronavirus this year may lead to weak domestic demand and reduced imports.



(Source: USDA)

Figure 6 Global palm oil import

Table 1 Palm oil import in China (by custom)

Customs	Palm oil arrivals (in tons)
Huangpu	991,215.18
Nanjing	845,871.67
Tianjin	412,862.24
Nanning	172,679.77
Xiamen	94,383.28
Qingdao	80,100.86
Shijiazhuang	61,777.4
Kowloon	48,613.29
Shanghai	35,029.63
Kunming	1,737.84
Ningbo	128
Dalian	76.53
Chengdu	27.2

South China (Huangpu, Xiamen, Shenzhen, etc.), North China (Tianjin, Beijing, etc.), and East China (Nanjing, Ningbo, etc.) are the main destinations of palm oil imports. According to statistics from the Ministry of Commerce, in 2019, 991,215.18 tons of palm oil arrived at Huangpu Customs, accounting for 36% of the national imports; 845,871.67 tons arrived at Nanjing Custom, accounting for 30% of the national imports.



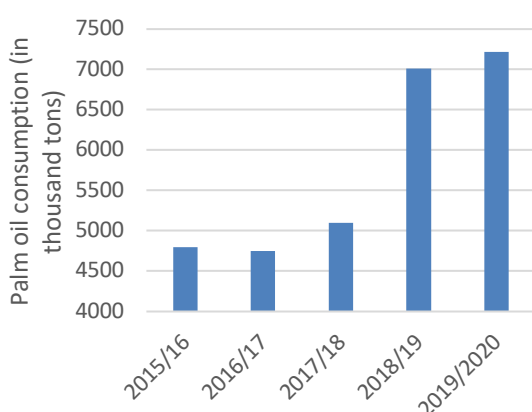
Chongqing	21.11
Beijing	0.1

(Source: statistics released by the Ministry of Commerce)

2.2. Palm oil consumption in China

China's palm oil consumption is on the rise. In 2019, China's palm oil consumption reached 7.22 million tons, surpassing the EU for the first time and becoming the world's third-largest palm oil consumer after Indonesia and India. This increase can be attributed to the decline of palm oil prices and the growing demand for instant noodles, snacks, and fast food in China (OECD-FAO, 2019).

Palm oil has both food use and industrial use. Food use is mainly for the production of blending oil, instant noodles, biscuits, ice cream, confectionery, as well as for frying and grilling in the catering industry. Industrial use is mainly divided into two categories: one is products that could directly be obtained from palm oil such as epoxy, polyol, polyurethane, and polyacrylate; the other is oleochemical products and other derivatives. USDA data shows that the current consumption of edible palm oil in China is about 4.7 million tons, and the consumption of industrial palm oil is about 2.5 million tons.



(Source: USDA)

Figure 7 Palm oil consumption in China

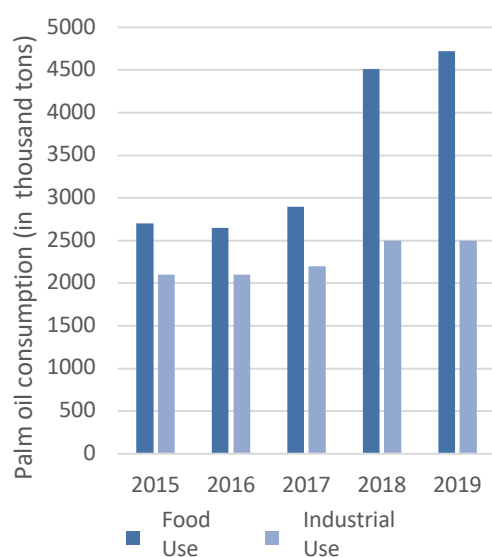


Figure 8 Palm oil food use and industrial use in

China

(Source: USDA)

3. China palm oil value chain

The palm oil industry integrates plantation, processing, trading, manufacturing, and retail. It spans different production levels, relies on complex supply chains and international trade, and involves a large number of stakeholders.

Table 2 China palm oil value chain

Stage	Value chain	Companies
Investment	Institutional investors, banks, fund company, etc.	China Development Bank, Bank of China, Industrial and Commercial Bank of China, Agricultural Bank of China, China Construction Bank, HSBC, Encore, Central Huijin, Penghua Fund, China Investment Corporation, Anbang Insurance, China Merchants ...

Syntao - Sustainability

Production	Oil palm plantation			Yihai Kerry, COFCO, Yizheng Fangshun, COFCO, Cargill (China), Tianjin Julong, AAK, Bunge, Fuji Oil ...
	Palm oil factory and port			
Processing, transportation, trading and distribution	Refinery / Fractionation Plant / Trader / Distributor			
Consumer goods production	Non-food manufacturing	Food manufacturing	Animal feed	Master Kong, Tongyi, Yili, Mengniu, Nestle China, Mars, MDL China, Pepsi China, Want Want Foods, Heinz China, Procter & Gamble (China), Unilever (China), L'Oréal (China), Naas, Colgate-Brown Lam, BASF (China), Shanghai Jahwa, Shiseido (China), Mary Kay China, Minghui Group ...
Retail	Food retailers and other retailers			RT-Mart, China Resources Vanguard, Wal-Mart (China), Yonghui Supermarket, Carrefour (China), Yum, McDonald's, Haidilao, Qianxihe, Northwest Catering ...
Supervision & Monitoring	Government	NGO	Certification body / research institution	Ministry of Commerce, Ministry of Agriculture and Rural Affairs, Ministry of Ecology and Environment, State Administration of Market Supervision and Administration, National Development and

				<p>Reform Commission, China</p> <p>Council, China Chain Store and Franchise Association, Green Development Council, WWF, WRI, DFID, CDP, UNDP, Solidaridad, China Dialogue, Greenpeace, TFA, TNC, Protection International, Blue, SynTao, TRASE, ISEAL, Paulson Foundation, Ford Foundation, SGS General Standard, Bureau Veritas, German Rhine, TUV South Germany, BSI ...</p>
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3.1. Financial Institutions

(institutional investors, banks, etc.)

The palm oil industry is capital-intensive as it requires significant up-front financing for plantation setup, refinery and mills construction, and many other activities. It costs five years for oil palm trees to start to yield fruit, and seven years to reach maximum output. Converting 100 square kilometers of land (and any forest on it) to an oil palm plantation will require at least US \$ 50 million (Mongabay, 2018). Palm oil plantation industries in Malaysia and Indonesia over the past decade have received more than \$ 50 billion investment, half of which went to the 27 largest palm oil companies (BankTrack).

Table 3 TOP 5 domestic banks in palm oil industry

Domestic Bank	Industry loan amount (million dollars)
<i>Total loan amount of all domestic banks</i>	961
<i>China Development Bank</i>	303.48
<i>Bank of China</i>	242.52
<i>ICBC</i>	139.88
<i>Agricultural Bank of China</i>	114.45
<i>China Construction Bank</i>	97.47

(Source: WWF)

Table 4 TOP 5 domestic institutional investors in palm oil industry

Domestic institutional Investors	Investment amount (million dollars)
<i>Total domestic investment</i>	16.68
<i>Central Huijin Asset Management</i>	2.94
<i>Penghua Fund</i>	2.35
<i>Pacific Century Group</i>	1.92
<i>Southern Fund</i>	1.29
<i>China Resources Fund</i>	1.22

(Source: WWF)

Table 5 TOP5 domestic underwriter in the palm oil industry

Domestic underwriter	Bond and stock issuance (million dollars)
<i>Total underwriting of all domestic underwriters</i>	874.36
<i>CITIC Bank</i>	186.23
<i>ICBC</i>	132.91
<i>China Merchants Group</i>	89.62
<i>Bank of China</i>	82.96
<i>China Construction Bank</i>	80.08

(Source: WWF)

The key role of financial institutions in the palm oil industry provides them opportunities to reverse environmentally destructive practices and improve supply chain sustainability. Take banks as an example, banks can force their customers to plant and purchase sustainable palm oil by improving due diligence requirements and loan requirements. But for banks, the palm oil industry is only a fraction of their

businesses, and the commitment to promote sustainable palm oil is not very strong. Plus, there is a lack of experienced teams and personnel dealing with this matter. Domestic financial institutions have just begun to consider environmental and social impacts. They have not yet developed a detailed framework for regulating social and environmental risks (WWF, 2019). Our interview found that most domestic banks in China have not paid special attention to the issue of sustainable palm oil and have not formally incorporated the environmental risks caused by into their businesses, nor have they formulated corresponding restrictions or preferential policies. Compared with their Chinese counterparts, foreign banks had a head start in promoting sustainable palm oil. In addition to setting up forestry and agricultural commodity policies requiring customers to obtain RSPO certification, some foreign banks also cooperate with NGOs to carry out awareness-raising projects on sustainable palm oil in China.

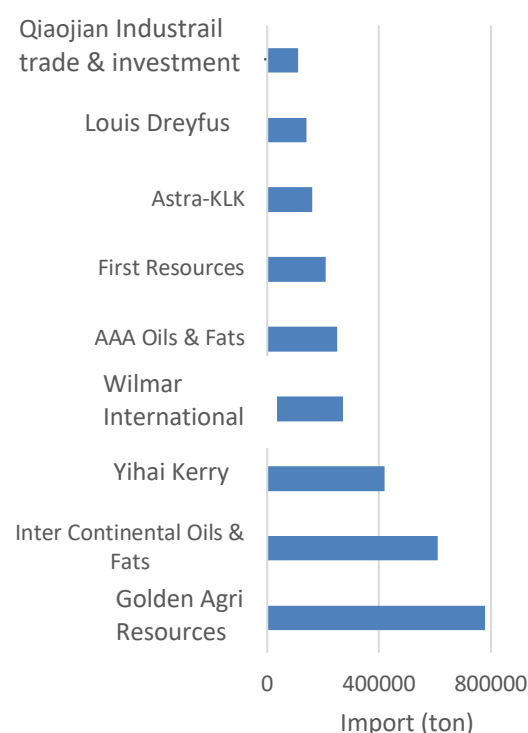
3.2. Refiner/Trader/Distributor

Palm oil processing is extremely time sensitive as the quality decreases quickly after harvest. Mass palm oil processing requires complex and costly infrastructure, and production facilities need to be close to the processing facilities. As a result, a handful of multinationals headquartered in Asia dominate the refining, processing, trading, and distributing of palm oil. These companies are generally vertically integrated, not only managing imports and trading facilities but also oil refineries, food factories, personal care products, cosmetics, etc. (UNDP, 2020).

Wilmar International, a Singapore-based agribusiness group, is the largest palm oil trader and controls 45% of global palm oil production and sales (UNDP, 2020). In China, the two largest traders are Yihai Kerry (backed by Wilmar) and Cargill. Most traders are concentrated in south and southeast China, with a few are in the north (UNDP, 2020). These companies directly

import palm oil from abroad and then distribute through a large number of small and medium distributors, from whom palm oil enters manufacturing and retailing.

According to statistics from Trase, the top nine palm oil importers imported from Indonesia to China in 2015 were all large-cap multinationals, including two Chinese companies, Yihai Kerry and Qiaojian Industry and Trade Investment Development Co., Ltd.



(Source: Trase)

Figure 9 China TOP9 palm oil importer imported

from Indonesia in 2015



3.3. Manufacturer and retailer

Around 80% of imported palm oil is circulated as commodities, while the remaining 20% is for end-using, raw material processing, commerce, as well as intermediary trading in bonded areas (Dalian Exchange, 2019). There are more than 5,000 companies in the downstream of the value chain. Manufacturers are mainly in the catering, food processing, and chemical industries, while retailers

include supermarket chains, small retailers, catering companies, cleaning companies, etc. (UNDP, 2020).

In China, about 65% of palm oil is used for food, of which instant noodles account for the majority. 27% of edible palm oil is used for instant noodles, but so far there is only one instant noodle company (Foshan Jinhaihui) joining RSPO. Master Kong and

Tongyi are the two largest instant noodles manufacturers in China, occupying 50% and 20% of the market respectively (UNDP, 2020). Neither of them joins RSPO.

In consumer goods manufacturing, Unilever purchases approximately 785,000

tons of crude palm oil and approximately 450,000 tons of palm kernel oil and other derivatives per year, accounting for about 2% of global palm oil production. It is one of the largest palm oil end users in the FMCG industry

3.4. Government agencies and industry association

Since the 18th National Congress of the Communist Party of China, China has regarded ecological progress as a component of the Five-pronged overall plan to promote China's modernization and accelerated the construction of ecological civilization. The report of the 19th National Congress of the Communist Party of China put forward that "building an ecological civilization is a millennium plan for the sustainable development of the Chinese nation." Promoting green development in an all-round way is an important part of ecological civilization. The 13th Five-Year Plan identified green development as one of the five development concepts, and elevated green development to a new strategic height,

Building a green value chain of agricultural commodities such as soybeans, palm oil, and cotton is particularly important for China to achieve its sustainable development goals. Since the 13th Five-Year Plan, the development of green supply chain policies has accelerated significantly. In 2018, the Ministry of Commerce, Ministry of Ecology and Environment and 6 other government agencies jointly issued the "Notice on Supply Chain Innovation and Application Pilot ", which listed the construction of green supply chain a key task. In 2019, documents and guidelines related to green value chain including the Work Plan for Pilot Zero waste City Construction, Opinions on Promoting

High-quality Logistics Development and Promoting the Formation of a Strong Domestic Market have been promulgated.

At the moment, China Chamber of Commerce of I/E of Foodstuffs, Native Produce and Animal By-products (CFNA), a subordinate body of the Ministry of Commerce, is deeply involved in sustainable palm oil development. Since 2012, CFNA has continuously paid attention to the development of sustainable palm oil in China and has held several workshops and seminars. In 2013, CFNA and RSPO signed a memorandum of cooperation; in November 2015, CFNA launched the China Sustainable Palm Oil Development Guideline and established the China Sustainable Palm Oil Alliance (CSPOA) with WWF and RSPO in 2018.

China Chain Store & Franchise Association (CCFA) is the major industry association in promoting sustainable palm oil. In 2013, CCFA and WWF jointly launched the China Sustainable Consumption Roundtable

(CSCR), which aims to guide member companies to purchase, use and sell environmentally friendly products, participate in and commit to energy-saving and low-carbon practices, and encourage consumers to adopt green and sustainable consumption. Through the Sustainable Consumption Promotion Week, CSCR aims to raise consumers' awareness and promote a green lifestyle. CCFA's green consumption survey shows that from 2015 to 2017, consumers' knowledge of sustainable labels has increased significantly; awareness of energy efficiency labeling has increased from 78% to 89%, awareness of green food has increased from 58% to 83%, awareness of FSC (Forest Stewardship Council) certificate rose from 6% to 19%, and awareness of RSPO certificate rose from 5% to 10%.

The China Council for International Cooperation on Environment and Development (CCICED) is a high-level policy advisory body consists of senior Chinese and international officials and

experts. CCICED provides policy recommendations to the Chinese government on China's environment and development, such recommendations include sustainable consumption, environmental information disclosure for listed companies, and environmental risk management. In its policy recommendations to the Chinese government in 2018, it mentioned the necessity to strengthen the protection of biodiversity in overseas investment and trade, to take measures to strengthen the construction of green BRI and reduce the environmental, climate and biodiversity impacts of imported goods such as wood, palm oil, soybeans, and seafood. CCICED also cooperates with the World Resources Institute (WRI) to carry out the "Global Green Value Chain" thematic policy research project.

We also learned from our interviews that some subordinate bodies of other ministries, such as the China Green Food Development Center, the Ministry of

Ecology and Environment Foreign Cooperation and Exchange Center, China National Institute of Standardization, and China Banking and Insurance Regulatory Commission, are also beginning to participate in researches on green supply chain and sustainable palm oil from different perspectives of trade, finance, certification, etc.

Internationally, China's BRI is closely related to the construction of a global green supply chain. In April 2017, the Ministry of Environmental Protection (now Ministry of Ecology and Environment), the Ministry of Foreign Affairs, the National Development and Reform Commission, and the Ministry of Commerce jointly issued the Guiding Opinions on Promoting the Construction of Green BRI, pointing out that international cooperation and demonstration of green supply chains should be strengthened. In May 2017, the Ministry of Environmental Protection released the BRI ecological and environmental protection cooperation plan, further strengthen the concept of green

BRI. In April 2018, the Ministry of Ecology and Environment established the BRI green supply chain cooperation platform, which aims to promote green development in the countries and regions joining the BRI and to curb deforestation, biodiversity loss and greenhouse gas emissions caused by

unsustainable production of bulk agricultural commodities. This will be an important step for China to promote the Green BRI, fulfill the responsibilities of a major country, and commit to its climate pledges.

3.5. The International organization, civil society organization and research institute

There are many international organizations, civil society organizations, and research institutes in China that are interested in bulk agricultural commodities including palm oil that cause deforestation. Below we have listed some relevant institutions:

World Wildlife Fund (WWF)

WWF is one of the founding members of RSPO. Since 2009, WWF has rated the performance of 173 companies that have made sustainable palm oil commitments. Currently, five scorecards have been issued. No Chinese company is included as sustainable palm oil is still in its infancy in

China. The promotion of sustainable palm oil in China is the responsibility of the WWF market transformation team, which aims to promote the sustainable procurement of key commodities by key companies in key eco-regions and promote the global trade of key commodities in compliance with internationally recognized sustainability standards. Supported by WWF, the private enterprise Beltek (Huizhou) signed the first sustainable palm oil purchase contract in China in 2012, which achieved a breakthrough in the construction of a sustainable palm oil supply chain in China; in 2018, WWF cooperated with RSPO and

CFNA to establish CSPOA; in 2019, WWF released the Research on the Role of Chinese Financial Institutions in Promoting the Green Transformation of Forest-Friendly Agricultural Product Supply Chains to explore how to promote sustainable supply chain development through green finance.

The Nature Conservancy (TNC)

TNC China's past green procurement / sustainable forest management projects have focused on the timber industry. TNC China cooperates with relevant Chinese government agencies, especially the State Forestry Administration, enterprises, and relevant industry associations, and actively seeks out practical solutions to the illegal timber harvesting and trade in the region. By promoting domestic public sector and forestry processing enterprises to adopt green timber procurement policies and promoting the supply of raw materials for sustainable forest products in China, TNC strives to reduce the pressure of illegal timber harvesting and trade on the

protection of natural forest resources and biodiversity in the region. Palm oil may become the next focus of its green procurement / sustainable forest management projects.

Tropical Forest Alliance (WEF-TFA)

Backed by the World Economic Forum (WEF) and a member of CSPOA, TFA can establish contacts with many Chinese companies. TFA China hopes that China's large state-owned enterprises, joint ventures, and private enterprises can promise not to use commodities including soybean, cotton, and palm oil that cause deforestation. In 2020, TFA China will take advantage of events such as the Annual Meeting of the New Champion and COP 15 to promote the sustainable development of bulk agricultural products in China.

CDP

CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states, and regions to manage their environmental

impacts. As one of the three CDP themes, the CDP forest work provides a framework of action for companies to measure and manage forest-related risks and opportunities, transparently report on progress, and commit to proactive action for the restoration of forests and ecosystems.

At present, four Chinese companies have reported information on the purchase of palm oil through the CDP forest questionnaire. In July 2018, at the China Sustainable Palm Oil Supply Chain Forum and the second RSPO China Forum, CDP participated in the launch of the CSPOA.

World Resource Institute (WRI)

WRI is a close partner of the CCICED and one of the members of the BRI international Green Development Coalition (BRIGC). It has participated in the CCICED global green value chain thematic policy research project. This research project will focus on circular economy and green supply chain and review and summarize relevant bilateral, multilateral, and regional

trade agreements, with a special focus on the green soft commodity value chain and hard commodity circular economy. The project aims at providing policy recommendations to further promote green and sustainable trade policies in China.

UNDP

UNDP is committed to providing expertise and capacity building support and is working on sustainable palm oil in Indonesia, Papua New Guinea, and Libya to meet the challenges of unsustainable palm oil production.

In China, UNDP, the Foreign Exchange and Cooperation Center (FECO) of the Ministry of Ecology and Environment and CFNA jointly organized the China-Indonesia Sustainable Palm Oil Roundtable Dialogue in Beijing in April 2019 to discuss challenges, opportunities and policy recommendations for promoting sustainable palm oil in the two countries. In March 2020, UNDP China released the report Mapping the Palm Oil Value Chain,

which analyzes the palm oil value chain, proposes opportunities and challenges facing sustainable palm oil, and clarifies a common basis for cooperation for China and Indonesia.

China Dialogue

Since 2019, China Dialogue has released a series of reports related to the palm oil global industry chain. At present, the focus of China Dialogue is mainly on palm oil-producing countries. In the future, articles from a Chinese perspective will be launched (for example, the status of China's palm oil certification market).

TRASE

TRASE is an initiative by the Stockholm Environment Institute (SEI) and the Global Canopy. TRASE uses publicly available data to map out global supply chains of major agricultural commodities that cause deforestation (including soybeans, palm oil, wood, beef, etc.), showing how commodity exports are linked to agricultural conditions – including specific

environmental and social risks – in the places where they are produced, allowing companies, governments, and others to understand the risks and identify opportunities for more sustainable production.

GoalBlue

GoalBlue is committed to promoting a low-carbon lifestyle. Projects carried out include "smart eating", "low-carbon commute" and "blue ocean" to encourage consumers to give priority to energy-saving products and reduce consumption of resource-intensive products; encourage businesses innovating, producing and providing environmentally friendly products; influence the government to release relevant policies to facilitate the pursuit of low-carbon life.

Paulson Institute

Paulson Institute advocates market- and nature-based solutions to combat climate change and protect the ecological environment. It cooperates with financial

institutions to promote green lending standards. Under the Responsible Trade and Investment Project, Paulson Institute is currently cooperating with several institutions to research on funding mechanisms under the Post-2020 Global Biodiversity Framework, to propose solutions to close the financing gap in biodiversity protection.

Ford Foundation

Ford Foundation's new strategy in China has three funding directions, namely, Sino-US relations, China's overseas development finance, public welfare charity, and influence investment.

ISEAL

ISEAL is the global membership association for credible sustainability standards., and RSPO is a member of ISEAL. The mission of ISEAL is to strengthen the sustainable standards system and define and communicate the good practices of sustainable standards through various tools such as the ISEAL Code of Good Practices.

Conservation International (CI)

As an RSPO member, CI actively promotes the development of sustainable palm oil. Globally, CI communicates with major manufacturers, traders, and retailers to help companies develop sustainable procurement policies, including the purchase of certified palm oil. At the same time, in palm oil producing countries such as Indonesia, Brazil, Ecuador, Colombia, Peru and major palm oil consumer countries such as the United States and the European Union, CI has adopted policy advocacy to create a good policy environment for the promotion of sustainable palm oil. CI also provides training and technical support to smallholders to help them obtain sustainable palm oil certification and practice sustainable planting. Currently, CI has not landed palm oil project in China.

Chinese Institute of Food Science and Technology (CIFST)

As a representative of China's food science

and technology community, CIFST participates in the organization of important decision-making consultations that affect the development of China's food industry and science and technology. As the main industry of palm oil consumption, the food industry will play an important role in promoting the development of sustainable palm oil in China.

SynTao

As a leading sustainability consultancy in China, since its establishment in 2005,

SynTao has maintained close contact and cooperation with stakeholders from enterprises, NGOs, government departments, research institutions, etc. It has involved in a series of consulting and research projects regarding sustainable agricultural commodities. Its initiatives including CRO Forum, 520 Corporate Social Responsibility Day, SynTao Academy, and China CSR Top Ten Trends, have become a multi-level, multi-angle, multi-temporal stakeholder engagement platform, and showcase its work in sustainability.

4. Sustainable palm oil

4.1. Environmental impact of palm oil plantation

Most oil palm plantations are transformed from tropical rain forests. The expansion of oil palm plantations has caused rainforest destruction. In Indonesia and Malaysia, from 1972 to 2015, palm oil development accounted for 47% and 16% of the total local rainforest destruction respectively (IUCN, 2018). Although the rate of rainforest destruction in Indonesia

decreased by 40% in 2018 compared with the average annual rate of rainforest destruction in 2002-2016, the rate of rainforest destruction in emerging oil palm growers such as Ghana, Côte d' Ivoire, Papua New Guinea, Colombia and the Democratic Republic of Congo increased rapidly the same year (WRI, 2019).

The impact of deforestation is manifold. Forests are huge carbon sinks. The absorption of carbon by forests can offset the large amount of carbon dioxide generated by human activities. From 1990 to 2007, the carbon absorbed by forests is equivalent to almost 60% of emissions from fossil fuel burning and cement production combined. (Pan et al. 2011). Deforestation caused by oil palm plantation compromises forests' absorption of carbon. At the same time, fires and other methods are taken to clear lands further increase greenhouse gas emissions, which has a huge impact on climate change.

In terms of biodiversity, tropical forests are the most biodiverse environment in the world. The unsustainable oil palm development has caused damage and degradation of tropical rainforests, which

pose a huge threat to many species, such as the Bornean orangutan, Sumatran tiger, and Sumatran rhino. Sumatran rhinos have become extinct in the wild environment of Malaysia, with fewer than 80 distributed in the rainforests of Sumatra, Indonesia, Kalimantan, and Borneo (Bittel, 2019).

At the same time, many oil palm plantations have caused serious social problems. There are frequent violations of labor rights such as child labor, wages below the minimum wage, excessive working hours, and workers performing dangerous tasks without adequate protection. Also, oil palm plantations have robbed indigenous tribes of the space and resources on which they depended. Conflicts between oil palm plantation companies and indigenous tribes were frequently reported.

4.2. Development of sustainable palm oil

OECD and FAO predict that the growth rate of palm oil production will slow down in the

coming years due to the increasingly stringent environmental policies of major

palm oil importing countries and sustainable agricultural practices. Developed countries prefer to use zero-deforestation palm oil and require a sustainability certificate for palm oil used as biodiesel and food. The sustainable certificate of products is based on the guiding role of consumer demand for the entire market. It is expected that through certification, sustainable products and non-sustainable products will be distinguished, and through consumers' choices, sustainable products will gradually replace non-sustainable products in the market, to push the sustainable transformation of the entire industry (WWF, 2019).

Current mainstream sustainability standards include Sustainable Palm Oil Roundtable (RSPO), Malaysian Sustainable Palm Oil (MSPO), Indonesian Sustainable Palm Oil (ISPO), Sustainable Biomaterials

Roundtable (RSB), Sustainable Agriculture Network (SAN), International Sustainable Development and Carbon Certification (ISCC), High Carbon Storage (HCS) methods, etc., among which RSPO is the main certificate scheme with the widest coverage and highest recognition.

We continue to offer RSPO certified, ISCC certified or other equivalent certified products in support of our customer demands and legal requirements (Examples of such national schemes include the Malaysian Sustainable Palm Oil (MSPO), Indonesia Sustainable Palm Oil (ISPO) and the Indian Palm Oil Sustainability Framework (IPOS)). Besides, we continue to encourage and support our palm product supply chain partners to join the RSPO and become RSPO certified.'

—Cargill's Policy on Sustainable Palm Oil²

As of April 2020, RSPO has over 200 Chinese members. Joining RSPO will not only bring good reputation but also financial benefits to the company. A 2018 study by Climate Advisers showed that RSPO members outperform non-member

² See full-text

<https://www.cargill.com/doc/1432076149492/pal>

[m-oil-policy-statement-pdf.pdf](#)

counterparts; in the past five years. RSPO-certified companies' performance outperformed the FTSE Bursa Malaysia Palm Oil Plantation Index by 6%. In 2016, due to illegal logging of 45 square kilometers of forest and peatland and failure to effectively control forest fires, RSPO temporarily suspended Malaysian palm oil producer IOI Group. Cargill, Nestlé, Unilever, Mars, and other manufacturers have successively removed IOI Group from their supplier lists. After regaining its certification, IOI shares rose 5% (WWF, 2019).

Globally, the supply of sustainable palm oil is low and demand from buyers is insufficient. RSPO data shows that currently 19% of the world's palm oil, about 15.19 million tons, has been certified by RSPO. An EIA study showed that only 50% of RSPO certified palm oil was purchased. In Europe, 74% of palm oil imported for the food, animal feed, and oleochemical sectors was certified sustainable (IDH, 2019), but in China, less than 2% of

imported palm oil is certified in 2019, decreased from 2.7% in 2018 (RSPO, 2020).

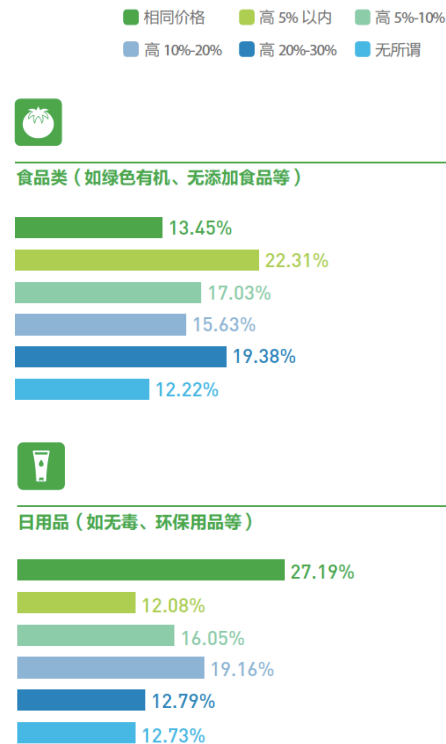
In recent years, with an emphasis on sustainable development, the development of sustainable palm oil in China has encountered new opportunities. At home, China has written ecological civilization into the Constitution, making it clear that "green water and green mountains are the golden mountains and silver mountains" "Mountains, rivers, forests, farmlands, lakes, and grasslands are a life community" "should embed in development concept. Internationally, China takes sustainable development as a basic national policy, implements the UN Sustainable Development Goals, and formulates China's National plan on Implementation of the 2030 Agenda. Meanwhile, China is deeply involved in global climate governance, plays a leading role in negotiating the Paris Agreement, and makes a strong commitment to reducing greenhouse gas (GHG) emissions. China is also working hard to promote the

implementation of the Green BRI, encourage Chinese companies operating overseas to observe local environmental laws, and regulations and call on them to raise environmental standards. The Chinese government also advocates the establishment of green banks to provide funding for green projects.

China will host COP15 in Kunming in 2020. This will be a great time to demonstrate China's leading actions in staving off climate change. Curbing deforestation and protecting tropical rainforests will be a topic of international concern. Sustainable palm oil production, processing, trade, and uses are important aspects of tropical rainforest protection.

At the same time, Chinese consumers have begun to put forward higher sustainable requirements for the products they purchased. SynTao's 2019 China Sustainable Consumption Report shows that more than 70% of consumers are willing to pay higher prices for sustainable

products. Among them, 74.33% and 60.08% of consumers are willing to pay a 5% -30% premium for food and daily necessities.



(Source: SynTao)

Figure 10 Premium customers accepted

In 2018, RSPO, WWF China, and CFNA jointly launched the China Sustainable Palm Oil Alliance (CSPOA). At present, AAK, Cargill (China), HSBC, L'Oréal (China), Mars, Minghui Group, Musim Mas, Barry Callebaut, CDP, and Bureau Veritas (BV) have become members. CSPOA's vision is to make sustainable palm oil a mainstream commodity in the Chinese market. Its goal

is to advocate that major players in the palm oil value chain make commitments on sustainable palm oil and take gradual action to promote demand for sustainable palm oil in China. It calls for joint efforts to

support the production and consumption of sustainable palm oil that complies with national laws, sustainable palm oil production principles, and sustainable agricultural concepts.

4.3. Challenges facing sustainable palm oil in China

A WWF (2019) study shows that promoting sustainable agricultural commodities can be carried out at three levels: product, industry, and country. The product level refers to the promotion of the sustainability of the product itself through the implementation of sustainability standards and certification; the industry level refers to agreements or alliances among stakeholders such as companies, investors, and NGOs to promote the sustainable development of the industry; the national level refers to the state's commitment to the promotion of sustainable products, improving the sustainability of products and industry alliances across the national market.

At present, the sustainable development of

palm oil in China mainly depends on joining RSPO members and purchasing RSPO certified palm oil. The CSPOA established in 2018 is still in its infancy. Although RSPO has been established for 16 years, it started late in China and has not yet established extensive visibility and influence. The proportion of sustainable palm oil used in the Chinese market is low, and its development faces several challenges.

First, lack of policy requirement and relevant guidance

"If the promotion of sustainable palm oil in China is driven only by civil society, it will be ineffective and slow. Only if the state joined will it be effective. The orderly development of the palm oil industry in Indonesia and Malaysia and their emphasis on the environment is due to attention from the national

government. It is mandatory from the national level that the plantations must comply with sustainable standards. EU's increasing requirements for sustainable palm oil also force the process of sustainable palm oil in Indonesia.

— —Head of an overseas plantation

"At present, most of the certified palm oil is mainly sold to Europe. Most palm oil imported to China is not certified. The main reason is that downstream customers do not need it. Many times, our business can only provide products according to customer needs. The problem in the Chinese market is that the downstream does not pay much attention to sustainability, and the government does not pay much attention to it either. We still have many other environmental issues, so the problem of palm oil may not be on the agenda. This issue requires government intervention and support. Otherwise, according to the current stage of social development and public awareness, it is difficult to improve the situation in the short term. "

— —Head of CSR of an agribusiness group

An impetus should be given to the production side for the sustainable transformation of the supply chain. The Indonesian and Malaysian governments have implemented sustainable certification schemes respectively (ISPO and MSPO), requiring domestic growers to comply with sustainable palm oil standards. However, the Chinese government has not made any

statement regarding palm oil. The green supply chain policy is still being designed. It lacks a corresponding evaluation system; thus, companies lack the incentive to purchase sustainable palm oil. Even some foreign companies with global commitments have lowered their standards in China.

Many other environmental issues such as air pollution remain to be solved in China, so the priority of palm oil is low. Since China is a palm oil importer, China can promote sustainable palm oil from many perspectives such as trade, diplomacy, environmental protection, agricultural production, and consumption. No one designated government agency is responsible for this issue, and there is no clear inter-ministerial cooperation mechanism. The main government agencies currently involved in promoting sustainable palm oil in China is CFNA.

Second, sustainable palm oil increases the cost

"Plantations barely enjoy the benefits of certification. Costs have increased, but oil prices have not increased; futures market quotes have not distinguished between sustainable and unsustainable palm oil prices. For large plantation companies, the cost pressure caused by certification is not particularly high, but for smallholders, the cost pressure will be great. Certification also contains a lot of corporate social responsibility, which is a burden on the plantation. "

——Head of an overseas plantation

"At present, we are researching sustainable palm oil internally. Will we finally practice it? There is much consideration. Are suppliers willing to provide sustainable palm oil without price increases? Are we willing to bear the increased cost to enhance consumer experiences? Now that public awareness is not high, many companies still lack motivation. "

——Head of Public Affairs of a dairy company

"To choose which certification scheme is not only a question of cost but a question of awareness. The benefits that companies get from certification (improved management, cost savings, etc.) will be greater than costs. With the increase in public awareness of environmental protection, more consumers will be willing to pay more for sustainable products. There is a demand for sustainable products, but there is a process of awareness cultivation. This is a systematic project. "

——A NGO representative in China

The cost disadvantage of sustainable palm

oil is reflected in every stage of the palm oil value chain. In 2011, the Indonesian government withdrew from RSPO and introduced the ISPO, forcing oil palm growers to implement this standard and obtain the ISPO certification. Because RSPO and ISPO certifications are not interlinked, each certification requires a separate fee. Many plantations have only obtained ISPO certification as required by the Indonesian government but are reluctant to obtain RSPO certification at their own expense.

For companies that purchase palm oil, because the production and processing of sustainable palm oil require more investment, the price of sustainable palm oil is higher than ordinary palm oil. The vast majority of palm oil is exported to developing countries. Compared with developed countries, companies in developing countries are more price sensitive, thus pay more attention to price than sustainability. Our interview found that in most cases, the costs of purchasing

certified palm oil for large companies in Europe and the US are internalized and are not transferred to customers; but for domestic companies, the cost of sustainable palm oil is too high to internalize and transfer among supply chain firms. Companies that use sustainable palm oil products often pay extra costs, but they cannot increase the prices of their products as they worry about losing customers in market competition.

For companies planning to purchase sustainable palm oil, tracing the source of palm oil may increase the operating costs of the company. The palm oil value chain is highly complex. Many companies source palm oil from various mills and plantations. It is very difficult to extend traceability to all stakeholders upstream. Companies need to invest additional capital and technology to achieve a fully transparent supply chain. Most companies that have achieved sustainable palm oil procurement are large multinationals. Most Chinese companies we interviewed have not yet

taken action.

“We publish a progress report on sustainable palm oil every year. Our suppliers cover over 15000 mills. We are collecting all mill data and are working to increase traceability to the plantation. We ask our suppliers to sign our sustainable palm policy and provide mill data. We sometimes do an onsite check on our suppliers. In some countries such as Malaysia, we also provide a training program or engagement program to support our suppliers. “

——Lead of sustainable palm oil in an agribusiness group

At the same time, companies that adhere to strict sustainability standards will worry about the loss of customers after requiring extra certification processes; this challenge is particularly evident in banks: a bank can only restrict their customer but cannot prevent customers from getting money from other banks.

Third, insufficient consumer awareness

“We found that companies are mainly concerned about three issues: first is government’s attitude and whether there is policy support; second is the cost increase, who will bear it, and what impact will it have on the business operations; third is whether consumers are willing to pay for sustainable

products. "

—Project Manager of an INGO

"(Sustainable policy) is a global requirement. If our customers fail to meet the requirements, they cannot pass the credit approval, and there must be a rectification plan timetable; but this is only our bank's request for customers, and it cannot prevent customers from obtaining funds from other banks. Companies are willing to obtain RSPO certification, but often because the internal processes are complicated, they fail to do so. Only if the banking industry joins forces could companies' change their behaviors. "

—Head of a bank's sustainable development department

Demand for sustainable palm oil is mainly concentrated in Europe and the US. Domestic consumers' and the industry' s perception of palm oil and its environmental and social problems is relatively vague. Non-certified palm oil can easily find buyers in China, so many companies lack the motivation to carry out RSPO certification. RSPO ACOP questionnaires show that the main reason why most Chinese manufacturers do not use certified palm oil is that there is no consumer demand. WWF interviewed

5,000 people in a 2018 survey, only 13% of respondents were aware of the deforestation caused by oil palm plantation. For most respondents, the relationship between deforestation and palm oil is not as strong as that of deforestation and papermaking or stockbreeding (WWF, 2019). The 2019 China Sustainable Consumption Report by SynTao shows that only 8.25% of respondents recognized the RSPO label. The cultivation of consumer awareness is a systematic process, and the cost is very high. It is very difficult to rely on one company to carry out consumer awareness-raising. During the interview, a company stated that they have tried to promote sustainable palm oil products. It costs them tens of millions a year, but the result is not satisfactory.

Case: Development of Forest Stewardship Council (FSC) certification in China



PUBLIC CERTIFICATE SEARCH

ENTER LICENSE CODE

PUBLIC SEARCH HOME

License Code (FSC-C)

- Certificate Search
- Project Certificate Search
- Trademark Service license holder search
- FM Evaluations
- Certificate Holder Login

OR USE THE FOLLOWING FIELDS TO SEARCH LICENSE HOLDER(S)

Organization

Name
 Country or Area
 State/Country
 Show Sites/Member ☒

Certificate

Status
 Certificate Code
 FSC Controlled Wood ☐
 CW Risk Assessment ☐

Product

Level 1
 Level 2
 Level 3
 Species

Search

Reset Data

Similar to RSPO, FSC is a sustainable solution. FSC certification is the most influential forest certification in the world. FSC has formulated 10 principles and 56 standards to measure whether a company has achieved good forest management. The promotion of FSC in China can lend reference to RSPO.

The promotion of FSC in China is driven by the needs of the international market: domestic wood processing companies, especially export-oriented ones, consciously adapt to the needs of foreign buyers and begin to carry out the FSC chain of custody (CoC) certification. In 1999, FSC issued the first CoC certificate in China. By 2001, 17 forest processing companies in China had obtained FSC certification.

WWF began to participate in the promotion of FSC in China after February 2000. The development of FSC in China is supported by the State Forestry Administration and other national ministries and commissions. Under the joint promotion of State Forestry Administration, the Chinese Academy of Forestry and WWF China, a forest certification working group was established in Beijing in May 2001, and the State Forestry Administration established the China Forest Certification Leading Group in July 2001 to coordinate the establishment of China's forest certification scheme. In 2002, IKEA joined WWF's efforts to promote responsible forest management. In 2003, the German Investment and Development Company (DEG) further fund the cooperation between WWF and IKEA and support the sustainable forest management pilots carried out by Baihe Forestry Bureau and the Youhao Forestry Bureau. FSC certification gradually landed in China. In 2007, the FSC China Working Group was established. The growth of FSC certification is also getting faster in China, and in recent years it has reached the point where every day there are companies getting certification. With the joint promotion of all parties, as of October 2016, FSC certified forest area reached nearly 1 million hectares, and more than 4,800 companies were certified.

Unlike forestry, most of the palm oil imported in China is used for domestic consumption, and a small part is re-exported after processing. Therefore, foreign buyers have little influence on China's palm oil value chain. This poses a serious challenge to the promotion of RSPO in China. However, the development of FSC certification in China can still give RSPO some suggestions for future promotion: 1. RSPO's palm oil development should also be promoted by consumes. The vitality of certification comes from the market; 2. The leading role of demonstration/pilot is indispensable; 3. It is essential to winning the support of government agencies.

(Source: FSC website, WWF website and interview)

Fourth, NGOs are not paying enough attention

"The status and influence of international NGOs are not enough in China. It is difficult to access the substance. Many organizations do relatively shallow things."

— —A NGO representative in China

During this research, we have interviewed most civil society organizations that have palm oil-related projects in China. Palm oil is often included in forestry projects along with soybeans, pulp, and cocoa, as part of the initiative to promote zero deforestation. As the palm oil industry involves stakeholders from other countries, effective activities require cross-national coordination, which has relatively high

requirements for NGO capacity.

Projects of domestic NGOs such as policy advocacy, field visits, and online promotion are often short-term and one-time. Results achieved are limited. Communication with government agencies mainly depends on industry associations. Direct communication with government ministries is rare. Domestic NGOs have not yet become a powerful promoter of market transformation. Globally, the number of NGOs participating in the sustainable palm oil initiative is far from enough; some NGOs with relevant international initiatives do not have a team in China to manage palm oil projects.

5. Strategic recommendations to promote sustainable palm oil in China

All stakeholders along the palm oil value chain can participate in the promotion of sustainable palm oil, to achieve government leadership, enterprise participation, public welfare promotion,

media publicity, and win-win cooperation. We hereby propose recommendations for different stakeholders along the palm oil value chain.

For NGO, government agencies and international organizations

Recommendation 1 : Join force to leverage multiple marketing channels

"Palm oil products are not fully recognized in China. Consumers may feel that (palm oil) has some disadvantages. We will not actively promote the use of palm oil in our products. The use of vegetable oil in the dairy industry will have a bad impact. To promote sustainable palm oil, we must first reverse the public's negative perception of palm oil, then we can raise their awareness.

—Head of Supply Department of a dairy company

"End consumers do not have enough knowledge about palm oil. They tend to think of food safety rather than deforestation when talking about palm oil. Consumers may also think that if palm oil is harmful, then we should not use it. These are all due to a lack of knowledge. Many organizations and companies are concerned about sustainable development but lack a systematic mechanism to gather the power of everyone; many investors besides us have various channels to market sustainable palm oil."

—Head of a bank's sustainable development department

"The current national policy is still more focused on the issue of pollution prevention, so investors will also be more concerned about this issue and pay less attention to the problem of deforestation. If

investors are to encourage companies to purchase sustainable palm oil, they must first be educated on the issue. "

—A research institute

Looking at the development of FSC certification promotion in China, we can find that the success of many initiatives depends on the pressure from the end-users. In China, palm oil isn't sold as a product as soybean oil and rapeseed oil, but as one of the raw materials in various products, resulting in a lack of familiarity of palm oil from consumers, not to mention further interest to understand the environmental and social problems that occur in the producing country.

Industry and consumer advocacy must start with understanding the industry and consumers. RSPO has conducted relevant research on understanding the current status of the industry. Next, it can join market intelligence companies to conduct segmentation analysis (divided by product category, brand, region, consumer age, etc.) to obtain details on consumer behavior,

and to understand the overall picture of the domestic palm oil consumer market.

On top of that, RSPO can promote research and consumer education on palm oil from multiple angles such as health, environmental protection, and economy, through various communication mechanisms (such as CSPOA regular round table, SynTao Academy launched by SynTao, 520 Social Responsibility Day, CRO Forum, ChinaSIF Forum initiated by SynTao Green Finance). This will not only raise public awareness but also enhance RSPO's critical role in China's sustainable palm oil development.

Besides, as young people are having more buying power and paying attention to sustainable development, RSPO can also target the new generation of consumers (Gen Z), especially college students, to carry out relevant awareness-raising campaigns. By analyzing their demand, RSPO can plan and implement campaigns that cover topics that interest them, and

continuously monitor, evaluate, and improve the campaign. Through these efforts, RSPO can reshape public opinion to be more favorable to palm oil and advocate sustainable consumption of palm oil products.

However, we should learn from the recent failed NGO marketing campaign in China. When promoting sustainable palm oil, we should be careful not to confuse correlation and causation between Chinese palm oil consumption and deforestation in Southeast Asia and avoid condemning the industry and the public. It is important to choose the right perspective and deliver stories in a positive tone. Such stories can introduce best practices in the industry and China's efforts on palm oil issues.

Recommendation 2: Band together to influence policy decisions.

Different NGOs have their respective strengths, targeted stakeholders, and strategies. RSPO can join forces with other NGOs to gather resources and form

cooperation with regulatory authorities and standards-setting departments. We aim to promote the integration of relevant policies of investment, trade, standards, certification, and capacity-building. These policies could include integrating sustainable palm oil procurement standards into bilateral trade agreements with producing countries, requiring state-owned enterprises to take the lead in purchasing sustainable palm oil, integrating sustainable palm oil standard into government procurement policy, integrating sustainable palm oil financing into Green Credit, establishing pilots of sustainable palm oil certification scheme, etc.

At present, most projects involved government agencies are a policy research project. Although there is no policy in place now, we can see that attitude of relevant government agencies towards the palm oil issue is more open, and there are increasing opportunities for different stakeholders to engage and influence

policy decisions in the future.

"The Food Industry Association mainly serves customer companies. If the municipal government or national government have relevant documents and guidelines, the local food industry association will promote related issues. If sustainable palm oil is to be promoted in China, first there needs to be a national policy, and second to have the needs of consumers. The combination of these two elements will make it possible to push the entire value chain towards a more sustainable direction. "

——Head of a food industry association

For Companies

Recommendation 1: Create a positive incentive

Palm oil certification is a market mechanism. If companies obtaining RSPO certification cannot recover costs and obtain benefits, it will inevitably affect the development of RSPO. To offset costs and create benefits requires RSPO and other stakeholders to work together to create incentives. Feasible incentives include: (1) consumer goods manufacturers can increase sales and build a reputation through public service advertisements and spokespersons; (2) financial incentives

through green finance. Internationally, some banks have begun to provide preferential financial services to companies along the palm oil value chain if they obtain a guarantee from the International Finance Corporation (IFC) (WWF, 2019). China can also learn from the Business and Biodiversity Offset Program (BBOP) to explore a market based ecological compensation pathway. Also, some countries are now extending their carbon market to agriculture in which landowners can generate climate benefits and earn financial rewards. If the mechanism grew mature, China can consider adopting a similar approach. (3) cooperate with the media to publish rankings on companies' sustainable performance to increase brand awareness.

To lower the impact of increased costs due to sourcing sustainable palm oil, countries like the Netherlands where the market share of sustainable palm oil exceeds 80% adopt the approach of mass procurement. When peer companies collaborate and scale up procurement, they could purchase

certified palm oil at the same price, eliminating the price gap among peer companies. When promoting sustainable palm oil in China, we could explore the possibility of uniting all companies within an industry and purchasing sustainable palm oil by the industry as a whole, so to bridge the price gap.

Recommendation 2: Identify leaders and promote the use of sustainable palm oil in the food industry.

"The promotion of RSPO palm oil needs to focus on the food industry, and let large enterprises take the lead to affect small and medium-sized enterprises. 80% of imported palm oil is sold to large food processing companies such as Master Kong, Jinmailang, Tongyi, Mengniu, Yili, McDonald, and KFC, many of which have no requirement for sustainable palm oil. The palm oil used by consumer goods manufacturers like Unilever is much less than that of the food industry, so they (consumer goods manufacturers) can use more RSPO palm oil. "

—Head of the public relations department of a grease trading company

In China, more than half of imported palm oil is used for food, but local food industry companies purchase very little sustainable palm oil. Seeing our stakeholders' mapping (Annex 1), no Chinese food manufacturers commit to sustainable palm oil. China's leading companies can play a vital role in promoting the green transformation of the entire industry while affecting the upstream and downstream of the supply chain. To convince Chinese companies to commit, RSPO should begin with various approaches to contact Chinese companies. RSPO can start with leading companies in the food industry, identify sustainable products or brands, and cooperate with relevant research institutions to develop business cases based on international best practices to convince Chinese companies to take action.

However, we also found that for low-profit products such as instant noodles that use a lot of palm oil, the costs of using sustainable palm oil will be greater than other products. These companies are

usually more price-sensitive and may not welcome sustainable palm oil. RSPO can begin with small-cap companies or a small product, such as ice cream in the dairy company, and gradually promote sustainable palm oil to the entire food industry. Besides, RSPO can also identify emerging brands, such as internet celebrity-owned eCommerce companies, and start a cooperation to make sustainable palm oil consumption trendy.

"Our factory mainly provides milk pulp to company M (a well-known international fast food brand). Company M requires monitoring of palm oil sustainability and has designated palm oil traders. We bear the certification costs incurred by purchasing sustainable palm oil, it is not a big problem for our company, but it may be a problem for smaller companies. This milk pulp is for company M only, and our other products do not use much palm oil. Dairy companies normally don't use much palm oil, and the industry has not paid much attention to the problem of its sustainability. "

—Head of Supply Department of a dairy company

"Many companies (involved in the forest project) are chemical and food companies, and they rarely mention palm oil use in their information disclosure. I think because the issue of palm oil is not that significant for these companies, it may be an

opportunity for them to adopt sustainable palm oil, as the cost will be small, and companies may be willing to accept it. "

— —Project Manager of an NGO

Recommendation 3: Develop different strategies for different companies

Facing pressure from suppliers and competitors, the procurement department has to consider price and cost when sourcing raw materials. This is the main barrier for companies to adopt sustainable palm oil.

In light of this, for large multinationals, they need to take more responsibilities, make globally consistent and more ambitious commitments and sustainability goals, and continue to be supervised by civil society. For domestic enterprises, they may face technical difficulties like language barriers when adopting an international certificate scheme like RSPO. Many large domestic enterprises are still in the research stage of sustainable palm oil procurement. RSPO can provide consultancy, strategies, and brand support to help companies

integrated RSPO into their supply chain management. For listed companies, RSPO could work with financial institutions to promote their disclosure of forest risks. Domestic small companies need to improve their visibility in the matter. RSPO can join other organizations to advocate and raise awareness.

Recommendation 4: Take a step-by-step approach to achieve sustainable production and procurement

We found that some companies have achieved sustainable palm oil production step by step, first meeting the mandatory requirements such as ISPO / MSPO and then further obtaining RSPO certification.

For financial institutions:

Recommendation 1: Strengthen ESG management

Strengthening ESG (environmental, social, and governance) management is the basis for financial institutions to manage forest risks. First, financial institutions should incorporate environmental and social goals

into their strategies. Second, incorporate ESG into business processes, identify and evaluate environmental and social risks during business operations, filter customers based on ESG principles, and guide customers to develop in a more sustainable direction. At the same time, financial institutions should improve the collection of their ESG data to achieve real-time monitoring of ESG risks and provide strong support for ESG management. In response to ESG issues that the market is concerned about, financial institutions should strengthen information disclosure and actively respond to questionnaires from rating agencies.

Recommendation 2: Conduct sustainability policies benchmarking and case studies

As more and more Chinese companies joining RSPO, Chinese financial institutions, as funders, will receive more international scrutiny. The gap between Chinese financial institutions and international best practices creates two major risks. One is

that reports about Chinese practices that do not conform to sustainable development will cause damage to banks' reputation. Second is that investor sentiment fluctuations caused by the ESG risks of the funded companies will be risky for financial institutions (WWF, 2019).

In response to these risks, RSPO can help banks improve their reputation by cooperating with banks to implement relevant sustainable policies and publicize banks' positive contribution to sustainability. Meanwhile, RSPO can cooperate with research institutions to develop business cases and best practice benchmarking for domestic banks. At present, RSPO is working closely with HSBC in China, which has already implemented a sustainable palm oil policy.

During the interview, we learned that a subordinate body of State Administration of Management and Supervision is planning to conduct policy research on imported meat, soybean, paper and oil

from Brazil, and to explore how to promote green credit to support the sustainable transformation of these industries. We thus project that green credit research and green pilots of bulk agricultural commodities will be the future focus.

Recommendation 3: Encourage financial institutions to join international

initiatives

In addition to RSPO and FSC, there are many other international initiatives related to sustainable finance. Financial institutions joining these international initiatives can gain support from international society, improve corporate governance, and establish leadership in the industry.





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