



DYNAMICS OF PALM OIL INDUSTRY: BALANCING ECONOMY AND ECOLOGY THROUGH A SUSTAINABLE RECOURSE

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INTRODUCTION

Palm Oil Paradox: Importance and Sustainability Issues of Palm Oil

India is the largest consumer of Palm oil in the world at 15.2% of the total world's consumption¹. It imports majority of its share of palm oil from countries like Indonesia and Malaysia, one of the key players in the palm oil sector. The ecological impact of palm oil cannot be ignored. It has led to increasing concerns of palm oil sustainability. India being the largest consumer of palm oil in the world, has not made significant progress in ensuring sustainable palm oil by making responsible import choices in terms of the source and method of obtaining palm oil. Meaning of Sustainable Palm Oil: It is a set of principles and practices which are followed for growth, procurement, cultivation and manufacturing of Palm Oil. These include environmentally sound practices such as 'no deforestation' etc. It includes commitment to environmental responsibility for conservations of biodiversity and natural resources. It also extends to the principle of commitment to transparency and compliance with applicable laws and regulation.

¹http://www.greenpeace.org/india/Global/india/docs/palm_oil_report_2012.pdf

With the advent of industrial revolution around the world and gradual development of capitalism, the doctrine of laissez faire was propounded implying non interference of government in the free market. This led to decreasing role of government intervention and with time, issues of sustainability began to rise. The growth of palm oil industry is a classic example of this.

Conversely, the economic benefits of Palm oil are multifold and cannot be ignored. It is an efficient oil producing crop using about less than ten percent of world's oil farming land yet accounting for about 32% of production. It is also very versatile in nature being used in a variety of commodities. It has helped in lifting millions of people out of poverty in countries like Indonesia. Of all the vegetable oils in the world, palm oil accounts for a whopping 32% of worldwide supply. Its price, versatile nature and texture makes it an essential ingredient in variety of products ranging from toiletries like shampoos and soaps to edible items like spreads and chocolates and cosmetic items like lipsticks, lotions and lip balms.² Even though palm oil has been an almost-indispensible ingredient for households, industries and small businesses, the unrestrained and lack of regulations for the cultivation of palm oil has significantly impacted the environment around the world.. The harm is not limited to environmental degradation but also extends to human rights violation including violation of workmen rights with regard to working conditions, mal-practices of child labour and so on. Companies clear forests for the cultivation of palm oil in order to fulfill the

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http://www.greenpeace.org/india/Global/india/docs/palm_oil_report_2012.pdf



growing demand. Various studies have also reported that with rampant growth of the palm oil industry. The issue with palm oil sustainability (commonly referred to as the palm oil paradox) is in its inherent complexity owing to the fact that while palm oil industry has led to severe environmental damage and workmen exploitation. Palm oil is still one of the most viable option to use in a variety of products. Over the past few decades, demand for palm oil has globally increased owing to rising population and food demand. The Palm oil paradox arises from the struggle of finding a balance between economic development and sustainability. Palm oil remains to be the least expensive oil crop to produce. It is also the highest oil yielding crop having a four times better productivity per unit area than other oil crops. Various financial institutions and Palm Oil users (upstream) and financial institutions³ have committed to forest protection and sustainably grown palm oil.⁴

The central theme and issue which would be dealt with, in this research paper is various existing and possible measures to ensure sustainability of the Palm Oil which is a leading cause to the global deforestation and reduction of green cover. The research paper focuses on Asian countries like India, Indonesia, Malaysia which are global leaders of palm oil industry, in either consumption or production.

Research Questions

The research question which are aimed to be answered through this paper are:

- 1) whether there are equally feasible and income-generating substitutes to palm oil so economies like Indonesia which are highly dependent on production of palm oil as a source of their income and economies like India, which is highly dependent on its consumption, can do away with palm oil industry?
- 2) Whether there are methods and practices to ensure sustainability of palm oil for an ecological economic growth?
- 3) What are the legal, policy and personal initiatives taken domestically and internationally to ensure sustainable palm oil?

Indian Palm Oil Sector and Sustainability: Policy, Legal and Institutional Measures

India is the largest consumer of palm oil in the world. Over 96% of palm oil consumed in India is imported mainly from Malaysia and Indonesia.⁵ India being the largest consumer of Palm Oil in the world, has a long way to go to insure sustainable palm oil.

Various non-government actors have sufficiently contributed in raising sustainability concerns in the palm oil sector. There have been growing regulations in both buyer and producer market. Companies like VVF Ltd and Adani Wilmar agreed for 100 percent sustainable Palm Oil procurement. India depends on palm oil imports as it does not meet its internal demand through domestic production. It should thus insure that the source of palm oil imported is sustainable and meets environmental standards and certification.

³ Unilever commitment by Paul Polman, 2018

⁴ Unilever commitment by Paul Polman, 2018

⁵ Palm Lines, 2017, © WWF India -

http://awsassets.wwfindia.org/downloads/Palm_Oil_Report_2017.pdf



Existing National and Global initiatives on Palm oil sustainability

Today, various sustainable palm oil commitments exist at national and global level. This also includes a global shift in the mind set of people about consumption of palm oil. These commitments can be categorized into industry led commitments involving initiatives of stakeholders and government led commitments. Such a categorization can be further elaborated:

- India and Bilateral Trade with Palm Oil Producing Nations :

Indonesia is leading the way and has become the largest trade partner of palm oil to India in the ASEAN region. The bilateral trade between the two nations have increased from US\$4.3 billion in the year 2005-06 to US\$15.9 billion in the year 2015-16⁶

Methods and practices for the cultivation and procurement of palm oil is one of the biggest concerns with regard to palm oil sustainability. Various forests have been cut down for the cultivation and procurement of Palm Oil leading to large spread deforestation around the globe. The Indonesian Ministry of Agriculture has established a set standard in order to implement certification standards for the production of palm oil called as Indonesian Sustainable Palm Oil (ISPO) The Indonesian government has successfully enacted laws against deforestation in various regulated zones in Indonesia with an aim to protect the existing primary forests. However, though the objectives of the "no deforestation" law are well placed,

actual monitoring and implementation has been criticized globally. Out of the total palm oil acreage, just about 12% is ISPO certified which is an alarming situation keeping in mind that Indonesia, globally account for a huge share of Palm Oil production.

- **India and Malaysia**

India and Malaysia have good trade relations and both the nationals have signed various agreements such as the Comprehensive Economic Cooperation Agreement (CECA) and Free Trade Agreement (FTA). However, Malaysia does not have specific laws for regulating the Palm Oil sector. This sector is governed by various social protection and environmental laws. These include the Land Acquisition Act of 1960, Environmental Quality Act of 1978, Protection of Wildlife Act of 1972, Pesticides Act of 1974 and Occupational Safety and Health Act of 1960. Apart from this, Malaysian Sustainable Palm Oil (MSPO) was also made compulsory by end of the year 2019. Conversely, standards such as MSPO and ISPO are also criticized as they fail to ensure environmental sustainability in the long term and are not robust enough. These standards also lack implementation.

India has also taken various steps to encourage domestic production and avoid wrong import choices with regard to import of palm oil. It has raised import duty to 30 percent for importing crude palm oil and a 40 percent levy on the refined palmolein in order to curb cheap shipment of unsustainable palm oil and protect domestic refiners and

⁶http://www.mea.gov.in/Portal/ForeignRelation/Indonesia_13_01_2016.pdf



processors.⁷ In the year 2018, these figures were increased to 44 percent raise for crude palm oil and a 54 percent raise to refined palm oil.⁸ There are various Domestic policy actors in India contributing towards palm oil sustainability. These include:

1. Ministry of Commerce and Industry: It is responsible for development, promotion and regulation of commerce and international trade.

2. Ministry of Agriculture and Farmer's Welfare: The ministry closely works on Indian agriculture and uptake of oil crops such as palm oil by the farmers of India. The Trade Division within the Ministry is bestowed upon with the responsibility of forming policy recommendations on import and export of agricultural products. It also coordinates and formulates responses on World Trade Organization's Agreement on Agriculture.

3. Ministry of Environment, Forest and Climate Change: The ministry works on planning coordination oversight and promotion of India's policies and programs on environment and forestry. The Ministry is guided by principles of sustainable development enhancement of wellbeing for humans while implementing the policies and programs⁹

3. Ministry of Consumer Affairs, Department of Food and Public Distribution - The department has divided "oils" into various categories and it then manages the country's edible oils by assessing the domestic demand of edible oils and their availability through domestic sources. In order to maintain their

prices, any mismatch in demand and supply is balanced through imports of such edible oils. Even the prices of edible oils are monitored in the market and any required policy measures are initiated.

Domestic Policies for production of Palm Oil :

- National Mission on Oilseed and Oil Palm:- A national mission was put in place in India in order to increase production of vegetable oils, tree borne oilseeds as well as palm oil. This initiative helped in significantly increasing the production of oilseeds thus, reducing dependence on imports.
- Oil Palm Area expansion (OPAE): This scheme was launched to bring in about 60 thousand hectares of land under palm oil cultivation. The program also focuses on providing incentives and loans at low interest rates.

Various Voluntary Initiatives

Under the Bureau of Indian Standards, a draft dated 15th April 2014 with specification on Palm Oil. Such standards were published in 1977 for the first time. It was later amended in order to launch scheme for labeling of products that are environment friendly. This mark came to known as ECO Mark.¹⁰

- Indian Palm Oil Sustainability Framework: This framework is a bunch of social criterias and environmental criteria for the production and trade of sustainable palm oil, applicable in India, It is developed by Solidaridad and Society for Promotion of Oil Palm Research and Development which comes under (IOPR)

⁷<http://www.thehindubusinessline.com/economy/agri-business/import-tax-on-edible-oils-raised/article9965984.ece>

⁸ <https://www.cnbc.com/2018/03/01/reuters-america-india-raises-import-tax-on-crude-refined-palm-oil.html>

⁹ <http://envfor.nic.in/about-ministry/about-ministry>

¹⁰ http://www.bis.org.in/sf/fad/fad13_2634c.pdf



Indian Institute of Oil Palm Research of the Government of India and The Solvent Extractors Association of India in consultation with various key stakeholders across India.¹¹ Apart from this, there are various Indian Companies and Multi National Companies in India which have committed to ensure sustainable Palm Oil. Deforestation free profiles and portfolios are generally common among famous brands and big manufacturers like Nestle, Unilever, Proctor & Gamble to name a few. This has led to emergence of various corporate commitments related to sustainability. North American and Europeans companies rank the first on highest number of environmental commitments. In the year 2016, the World Wide Fund for nature Palm Oil Buyer Scorecard looks into 137 companies from Canada, US, India, Europe, Australia and Japan who buy the maximum quantity of Palm Oil. These include mega giants like Walmart, McDonald's etc. Focusing on the Indian perspective, there were three Indian companies which were evaluated by the Scorecard¹² These were Godrej, VVF and Emami Ltd. The Ferrero Group stood as a top scorer globally. Full commitments to hundred percent sustainable palm oil are not common by Indian Companies. However there have been various companies globally which pledged to consumers for using 100% certified Palm Oil. Furthermore, companies like Adani Wilmar, VVF Limited, Godrej Ltd. and AAK Kamani Pvt Ltd have all made public commitments to ensure sustainable palm oil in India

Way Foreword: Recommendations and Viable Measures to Ensure Palm Oil Sustainability

In order to ensure palm oil sustainability, there is an ardent need to focus on some strategic areas some of which are:-

- **Biofuels**

India is an energy deficit country importing about 81 percent of the total oil consumption of the country. India is also amongst the top ten contributors to carbon emissions. The Indian Government has thus realised the difference biofuels can make to ensure India's energy needs and reduce carbon emissions. Biodiesel is a non petroleum based fuel which is produced by various feed stocks including animal fats, algae or vegetable oils. It can also be blended with petro-diesel to run engine vehicles. It is emerging as a better alternative and a renewable form of energy for a more sustainable and cleaner environment. It burns about 75 percent cleaner than other diesel fuels produced through fossil fuels and does not emit carbon dioxide in the atmosphere. In context of the Palm Oil industry, The Palm Fat Acid Distillate is the by-product which remains after refining of palm oil physically. This has for long been used to make soap and also as a raw material in oleo chemical industry. For production of Bio Diesel, PFAD is an effective feedstock. As India's energy consumption is rapidly increasing, India has mapped out plans to boost the domestic bio fuel market rapidly in the coming years.

Indian government has also unveiled a National Bio-fuel Policy (2018) which aims to encourage and incentivise the

¹¹<http://businesswireindia.com/news/fulldetails/indias-national-palm-oil-sustainability-framework-ipos-launched/54950>

¹²<http://palmoilscorecard.panda.org/check-the-scores/filter/country/india>



generation of bio-fuel. Thus integration of sustainable bio-fuels in the palm oil chain is an essential step towards ensuring sustainable practices.

- **Promote Domestic Production of Palm Oil through sustainable practices-** The Indian Government has drawn up strategy in order to encourage palm oil cultivation on a large scale in order to ensure sustainable palm oil through a program on Palm Oil Area Expansion.
- **Scaling up the demand for RSPO (Roundtable Conference on Sustainable Palm Oil)** is a global standard to certify sustainable palm oil. To ensure sustainable palm oil, all the RSPO member that take legal ownership and handle/produce RSPO certified palm oil require RSPO certified products in a price sensitive economy like India, where a large section of population is below poverty line or poor, the price of a commodity takes precedence over concerns of environmental sustainability.

Conclusion

In the present Palm Oil market scenario of India various solutions such as increasing awareness amongst the middle and upper class of buyers in order to promote sales of only sustainable palm oil, marketing palm oil as a sustainable brand, promoting better quality palm oil at feasible prices, setting targets which are time bound for the RSPO members are some of the innovative measures. Effective measures should take place to ensure the active engagement of RSPO with the owners and retailers in India. Reducing certification cost can insure participation of industry actors to certify their products. Above all, In the context of India, it is highly important to overcome the perception of

consumers that labels like 'clean', 'cruelty-free' and 'sustainable' automatically imply 'expensive'. Hence, increasing awareness should begin from the grass root level in order to succeed in accomplishing any of the above measures.

Bibliography

For the successful completion of this project a few literary sources and the following e-sources have been referred to :

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