

## Towards more sustainable production – perspectives, challenges and opportunities along palm oil commodity chains



### **P2CS project** **March 2019**

This P2CS project aimed to capture the perspectives on sustainable production of actors along a whole palm oil supply chain.

The SEI Initiative on Producer to Consumer Sustainability (P2CS) is an SEI-wide research initiative that connects the sustainable production and sustainable consumption agendas. P2CS explores the links and interactions within production-to-consumption systems – encompassing global flows of commodities and the impacts, dependencies and wider dynamics associated with production and consumption – in order to find new opportunities to enhance their sustainability.

The initiative enters its third implementation phase in 2019.

Voluntary private-sector sustainability initiatives by several major companies along agricultural commodity supply chains – such as No Deforestation, No Peat, No Exploitation (NDPE) policies – have had little success, either in terms of improving sustainability or of increasing market share for “sustainable” commodities. No obvious single reason has been identified.

Studies to date on attitudes to, and implementation of, such initiatives and on supply chain governance more broadly have tended to focus on one end of the supply chain and failed to capture the diverse perspectives of actors along the whole supply chain – something SEI and the P2CS initiative are well placed to do. SEI has expertise in the environmental impacts and governance of palm oil production in Indonesia and the possibility to trace the commodity from production, via traders to the point of consumption in other areas of the world.

In this case study<sup>1</sup> we look along the supply chain taking palm oil exports from Riau Province, Sumatra, Indonesia to the European Union. Semi-structured interviews (20) and focus group discussions (3) were held with growers, Indonesian government officials, traders, investors and other actors, all the way to retailers in Sweden and government officials in the EU. They sought the views of these stakeholders on reasons for failure and possible remedies. The SEI-PCS material flow model (see the P2CS brief *SEI-PCS: Spatially Explicit Information on Production to Consumption Systems*) was used to understand the supply chain and the actors – serving both as a planning tool for the project and to stimulate discussions with stakeholders.

### **Learning points**

Private sector-led initiatives such as palm oil certification schemes assessed in this project face multiple barriers to success, with lack of consumer demand on one side, lack of coordination in the supply base on the other, and additional problems with pricing structures and monetary compensation for the production of sustainable palm oil. Unresolved land rights and conflicting regulations in producer countries can be major barriers to any attempt at private sector-led action or certification schemes.

Larger growers and processors have limited ability to enforce sustainability standards on independent smallholders, who account for close to 40% of total crude palm oil production in Indonesia. This raises fundamental questions about the widely held assumption that a limited

**Photo (above):**  
**Bunch of oil palm fruits** © GETTY / ARIEF PRABOWO / EYEEM

<sup>1</sup> Larsen, R. K., Osbeck, M., Dawkins, E., Tuhkanen, H., Nguyen, H., Nugroho, A., Gardner, T. A., Zulfahm and Wolvekamp, P. (2018). Hybrid governance in agricultural commodity chains: Insights from implementation of 'No Deforestation, No Peat, No Exploitation' (NDPE) policies in the oil palm industry. *Journal of Cleaner Production*, 183. 544–54. <https://doi.org/10.1016/j.jclepro.2018.02.125>

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number of focal companies (typically traders) can serve as “choke points” to coordinate and transform the market. Along with failure to implement sustainability standards among smallholders, opaque and shifting ownership structures in different types of “shadow holdings” appear to complicate the matter further.

Supply chain actors’ views on the role of European governments in regulating or otherwise steering the palm oil market were mixed and ambivalent. EU governments were accused of using sustainability concerns as an excuse for protectionism, for example. The risks of unintended impacts arising from reduced palm oil trade on smallholders and Indonesian economic development were also cited as a downside of EU government regulation. On the other hand, companies argued in favour of greater EU regulation to “level the playing field” and make it easier for companies to implement sustainability policies.



Palm oil plantations are bringing economic wealth to parts of Indonesia, but at the cost of rapid deforestation. © GETTY / ADIARTANA

Taken together, the findings indicate that commodity supply chain actors, including companies, are aware of the shortcomings of private-sector-led collective action in the face of the underlying political economy of supply chains and politics of resource governance. This suggests that producer countries (such as Indonesia) and importing regions (such as the EU) urgently need to support the private sector, if they wish to see a decisive improvement in sustainability performance. “Hybrid governance” initiatives – led jointly by private-sector, public-sector and civil society actors in producer and consumer countries – are still relatively novel, but could offer a way forward. However, their success will probably depend on striking a new balance in roles and responsibilities – including reform of the various institutions involved.

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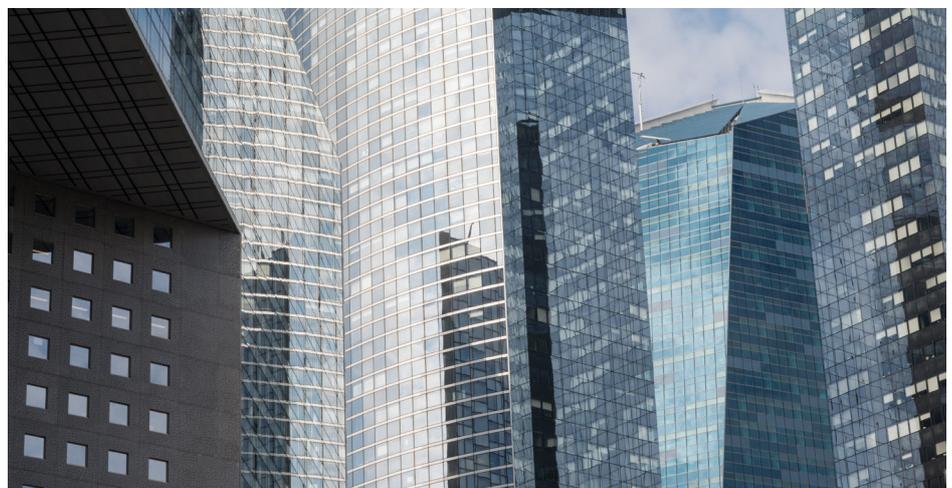
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Actors at different ends of palm oil supply chains can have very different perspectives on sustainability issues. © GETTY / SPYROS ARSENIS / EYEEM