

Case #4b. Sime Darby and Palm Oil Agriculture Sustainability

Synopsis: Case 4b invites you to use the framework of Module 4 to assess the efforts of a single company, Sime Darby, to apply principles of “sustainability” to their internal operations and external relations.”

On June 17, 2015, in a Canal+ television interview, France’s Ecology Minister Segolene Royal urged French citizens to stop eating the popular chocolate spread, Nutella. In her words,

“We have to replant a lot of trees because there is massive deforestation that also leads to global warming. We should stop eating Nutella, for example, because it’s made with palm oil. Oil palms have replaced trees, and therefore caused considerable damage to the environment.”

This was no inconsequential charge, as France consumes 26% of all Nutella produced globally by maker Ferrero. Ferrero, which also makes the famous Ferrero Rocher chocolates, gets almost 80% of its palm oil from Malaysia and said in February that “it has made commitments to source palm oil in a responsible way.”

In 2011, France tried to enact a 300% tax on palm oil because of its deforestation effect and the fact that products using palm oil contribute to obesity. However, in 2012, the draft law – dubbed the “Nutella Law” –was rejected by the French senate in a close vote.

In response to previous challenges, in 2013 Ferrero launched the Ferrero Palm Oil Charter as it “has a significant role to play in leading the sustainable transformation of the palm oil sector” and is committed to using palm oil in a responsible way.

Malaysia is Nutella’s largest supplier of palm oil and the world’s second largest producer of palm oil behind Indonesia. Half a million people are employed in the palm oil industry in Malaysia and the sector accounts for 5-6% of Malaysia’s GDP.

Royal’s comments drew an immediate response from **Sime Darby**, a Malaysian firm that is one of the largest palm oil producers in the world. For Sime Darby’s response to Simolene Royal’s remarks, visit the Sime Darby Website,

http://www.simedarby.com/Palm_Oil_And_Deforestation-;_The_Solution_Is_Sourcing_100-p-_Certified_Sustainable_Palm_Oil.aspx

Sime Darby Berhad is a major Malaysia-based multinational conglomerate with 100,000 employees in 5 core sectors: plantations, property, industrial, motors and energy & utilities. The modern Sime Darby Berhad corporation was created in 2007 through a merger of three companies, Simon Darby, Guthrie and Golden Hope.

British businessmen William Sime and Henry Darby established Sime, Darby and Co. in 1910 as a rubber plantation. The company later diversified to cultivating palm oil and cocoa. In the late 1970s just under half the equity in Sime Darby Holdings was acquired by Malaysian investors. In 1981, the group became a wholly Malaysian-owned company after former Malaysian Prime

Minister Mahathir Mohamad engineered a raid by Pemodalan Nasional Berhad to take over the company.

Sime Darby is one of the largest palm oil producers in the world, supplying about 6% of world supply. Sime Darby currently operates palm oil and rubber plantations in Malaysia, Indonesia and Liberia. Plantations are Sime Darby's largest revenue and profit generator.

The company has a total planted area of over 500,000 hectares and a land bank of over 900,000 hectares. About two-thirds of the Sime Darby's palm oil production comes from Malaysia, and one-third from Indonesia. Sime Darby is the largest global producer of “certified palm oil” (certified by the **Roundtable on Sustainable Palm Oil (RSPO)**.)

The Roundtable on Sustainable Palm Oil (RSPO)

The Roundtable on Sustainable Palm Oil (RSPO) is a global, multi-stakeholder initiative on sustainable palm oil. Its defined mission is to transform global markets to make sustainable palm oil the norm in the industry by various means, including:

- **Advance the production, procurement, finance and use of sustainable palm oil products**
- **Develop, implement, verify, assure and periodically review credible global standards for the entire supply chain of sustainable palm oil**
- **Monitor and evaluate the economic, environmental and social impacts of the uptake of sustainable palm oil in the market**
- **Engage and commit all stakeholders throughout the supply chain, including governments and consumers.**

The 2,000+ members of RSPO, and participants in its activities come from many different backgrounds, including plantation companies, processors and traders, consumer goods manufacturers and retailers of palm oil products, financial institutions, environmental NGOs and social NGOs, from many countries that produce or use palm oil. The RSPO vision is to “transform the markets by making sustainable palm oil the norm” by setting standards for sustainable palm oil production. Key elements are no deforestation, no destruction of peat lands, and no exploitation of locals.

Among the participating NGOs are Forest Heroes (www.forestheroes.org) and World Wildlife Fund (www.worldwildlife.org).

For more details on RSPO, see:

<http://www.rspo.org/about>

The RSPO's working groups are designed to encourage members to address complex and difficult challenges and work towards developing solutions. As a multi stakeholder, participatory roundtable that works on the basis of consensus, it is essential that all members feed in to the decision-making process. The committees and subgroups are made up of a representative from

each of the stakeholder groups and are periodically created to deal with a specific issue.

The following working groups are currently active:

- Smallholders Working Group
- Greenhouse Gas Working Group II
- Emission Reduction Working Group
- Biodiversity and High Conservation Values for Certification Working Group

Small producers (smallholders) present a particular challenge to RSPO. They are typically small family owned farms that currently produce 1/3 of all palm nuts. The Mandate of the RSPO Smallholders Working Group includes:

- Support and monitor trials of the application of the RSPO Principles & Criteria with smallholders.
- Provide recommendation to the Secretariat/Standing Committee/ Board of Governors for approval of project(s)/ funding/ policies that have impact to the overall smallholders' development.
- Ascertain the relevance, effectiveness and impact of the RSPO Principles & Criteria and Supply Chain Certification with regards to smallholders and propose adjustments to both national and generic RSPO documents.
- Facilitate and support the development of global relevant smallholder knowledge base and ensure linking and learning between different countries, initiatives and technology.
- Promote the development of support mechanisms and partnerships with the aim to reduce barriers for smallholders adopting sustainable production practices and RSPO certification (e.g. funding mechanism, capacity building modules, etc).
- Implement decision and/or policies by the Standing Committee/ Board of Governors on projects as well as directive to work with the other Working Groups/Task Force as and when need arise.
- To promote active participation of smallholders in the RSPO organisation.
- To work with all stakeholders of the RSPO, including governments, to achieve its mission.

<http://www.rspo.org/about/who-we-are/working-groups/smallholders>

The Role of the Malaysian and Indonesian Governments

Up to now, the Malaysian and Indonesian Governments have not played a significant role in promoting sustainability in the palm oil industry. Land mapping is out of date, and officials sometimes take back land that large firms like Sime Darby temporarily set aside while negotiating with native peoples. Further, these governments want to expand the palm oil industry to facilitate rural employment, and so far have not shown the commitment to sustainable practices outlined by RSPO.

A new Indonesian government recently began renewing a moratorium on deforestation permits across peatlands and primary forests. Attention is now turning to the huge investments needed to convert the industry to better practices, especially among the up to the 1 million **smallholder**

farmers who cultivate much of the country's palm plantations and produce 1/3 of the annual crop. Massive intensification of production on those farms' existing lands will be the only way of achieving Indonesia's plans to boost output without clearing more forests.

The **Palm Oil Growers Association** had estimated the corresponding investment in new seeds, training and substitute income for small farmers while their new trees grew to fruition is ~\$8,000 per hectare – or \$16 billion in total, with an eight year payback to the investment. Some palm oil growers are suggesting a new fund for this purpose financed by a levy of \$16 per ton of crude palm oil exported and \$30 per ton on derivatives.”

Pressure from NGOs

RSPO rules are not legally binding, and **Greenpeace, Friends of the Earth Malaysia** and other NGOs have in the past accused **RSPO** members of using suppliers who break the rules. Sime Darby claims it has never cut virgin forests, asserting their Malaysia lands were previously rubber plantations, and it is now planting again a forestry in the form of the oil palm tree.”

Friends of the Earth Malaysia chapter spokesperson, Mohideen Abdul Kader, says it is pressing for a regeneration or rehabilitation of so-called secondary forests (forests cut 20+ years ago and now regenerating) so that they will become high conservation forests. His organization does not believe palm oil can be sustainable. "Modern agricultural practice cannot produce sustainable products. It's based on clearing of large tracts of land, very often forest land," he says.

Pressure from Consumer Food Producers and Retailers

As noted at the start of the case, RSPO efforts to promote sustainability in the palm oil industry has been in some measure overtaken by efforts of NGOs to target giant multinational food firms like Ferrero, maker of Nutella, Kellogg, Nestle' and others. Pressures from consumers and NGOs on these companies have accelerated plantation owner commitments to sustainable agricultural practices.

Pressures from Scientists: Center for International Forestry (CIFOR)

The Center for International Forestry (CIFOR) is one of the scientific organizations promoting sustainable palm oil agricultural practices. Researchers from CIFOR have described the destruction of large areas of rainforest to make way for palm oil in Indonesia and Malaysia as an “ecological disaster”.

In a recent book, “Palms of Controversies: Oil Palm and Development Challenges,” the CIFOR authors wrote, “In the span of a few decades, Indonesia has seen the conversion of more than 5 million hectares of primary forest, Malaysia over 4 million, Nigeria 1 million, and about the same amount has been converted in the rest of the world.”

The authors insist that there is nothing wrong with palm oil agricultural itself, acknowledging that it yields more oil than competing plants for any given area of land.

“The challenge is to encourage forms of oil palm development which keeps the negative impact on biodiversity and local people to a minimum,” says CIFOR consultant researcher Sophia Gnych. “The industry needs measurable outcomes to achieve **“verifiable sustainability.”** Yet **there isn’t a single definition for this word**, (emphasis added) she says.

“It’s important to find common ground,” she says, noting the work of RSPO. “The zero deforestation commitments can trigger progress towards sustainability, but more consideration has to be given to inclusion of smallholders in supply chains and protection of local tenure rights.”

“Companies also have a very important role to play in providing agricultural extension services to support co-operatives and small holder farmers, as they have the most modern management and logistics systems, and they have direct access to good seeds, good fertilizer and best practices,” says CPI’s Jane Wilkinson.

CIFOR’s current research is focusing on “assessing business models across different economic and institutional contexts, and how improved partnerships can be built between oil palm companies and small-scale growers that are able to improve benefit sharing,” says Pablo Pacheco.

“It is about understanding better the links between public regulations and mechanisms and private initiatives for sustainability,” he says, “and how public-private institutional arrangements are able to support the transition towards sustainable oil palm.”

Questions:

1. **What is Sime Darby’s social responsibility for sustainable palm oil production internally? Given its commitment to implementing the RSPO guidelines, is there more that it can do internally?** (NOTE: I am asking what can SD do unilaterally in its internal growing and processing operations. This is separate from (a) what can it do externally in a leadership role in the industry as a whole and with RSPO, and (b) what can it do with small landholders and governments and NGOs.)
2. **Specifically, should Sime Darby have a role in bringing the small landholders up to RSPO standards? If yes, what specifically should be the nature and magnitude (“magnitude” must be specified in your answer—use numbers, e.g., \$\$/small landholders, % of their capital and/or operating costs, etc.) of the assistance, given the small landholders needs?**
3. **Should Sime Darby lobby the Malaysian and Indonesian governments to endorse RSPO practice standards? If yes, what should be (a) the message and intensity (strong, moderate, tweak[so as not to antagonize the government]?) of that lobbying effort?**
4. **What value does Sime Darby gain from working with NGOs ?**

[maximum length: 300 words]

