

Review of policy options relating to sustainable palm oil procurement

Proforest

A research report completed for the Department for Environment, Food and Rural Affairs



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Review of policy options relating to sustainable palm oil procurement EV0459

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Executive Summary

Background

Palm oil and its derivatives are used in a range of food, fuel, cosmetics and cleaning products. Palm oil is important for the UK market, such that research conducted in 2008 showed that 43 of the 100 best selling branded products in British supermarkets contained palm oil¹. Additionally, the UK Government's Renewable Transport Fuel Obligation (RTFO) has a mandatory volume blend for biofuels, and palm oil is an important feedstock for fatty acid methyl ester (FAME) blends with diesel. Furthermore, vegetable oil (such as palm oil) is eligible for the Renewables Obligation Certificates (ROC) subsidy scheme for renewable electricity producers, where sustainability is a criterion adopted by Ofgem.

Palm oil and its derivatives have been the focus of much attention over the past few years, in terms of the environmental and social impact of oil palm plantations, particularly given the rapid expansion of the planted area. Much of the criticism of oil palm plantations to date has focused on Indonesia and Malaysia, where some plantations have been established by converting natural forest and/or on peatland (both of which have potentially serious implications for greenhouse gas (GHG) emissions), and at the expense of high conservation values (particularly valuable forest areas) and land rights.

The Roundtable for Sustainable Palm Oil (RSPO) was set up in 2004 with the aim of developing a sustainability standard and a certification system to bring certified sustainable palm oil to the market. The RSPO certification scheme is now up and running, with both production and chain of custody certificates having been issued. Oil palm growers have demonstrably responded to market demands for sustainable palm oil. The production capacity of certified palm oil plantation areas is currently 3.4 million metric tonnes of palm oil per year; of this, 2.3 million metric tonnes was available in the market in 2010. However, buyers have been criticised for a slow response to this availability, such that globally, only 56% of the available volume was purchased in 2010. Many major UK and international businesses that use or sell palm oil have made commitments to 100% sourcing of sustainable palm oil by a given deadline, generally 2015.

Summary of proposed intervention and options

The UK Government is considering the introduction of specific policy interventions relating to sustainable palm oil sourcing and potential approaches to encourage improvements in the sustainability of UK palm oil consumption. The stated policy objective is to increase the proportion of sustainable palm oil consumed in the UK, with the consequent aims of preserving carbon stocks, protecting biodiversity, and addressing issues of workers' rights and land rights.

A supply chain mapping study, which accompanies this report, was undertaken to provide a more detailed understanding of UK palm oil consumption. The figures A and B below show the overall volumes of palm oil imported into the UK (excluding in final products) and its main uses. This study enables the UK palm oil supply chain to be clearly characterised, for example in terms of the points in the supply chain where there are the fewest operators handling the highest volumes, which can be considered critical leverage points. Targeting of policy interventions at these points can be expected to result in greater positive impacts.

¹ The Independent 2 May 2009, <http://www.independent.co.uk/environment/the-guilty-secrets-of-palm-oil-are-you-unwittingly-contributing-to-the-devastation-of-the-rain-forests-1676218.html>

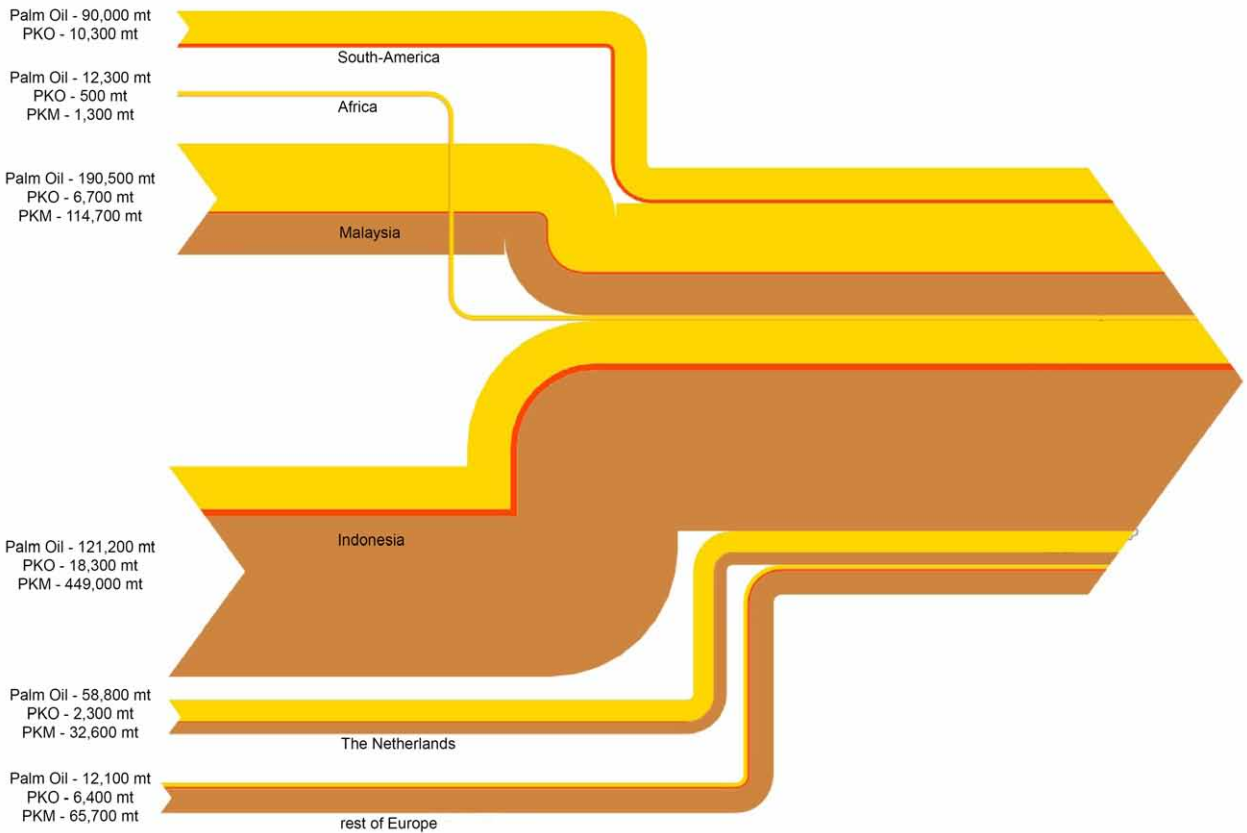


Figure A: Import of palm oil, palm kernel oil and palm kernel meal into the UK (2009)

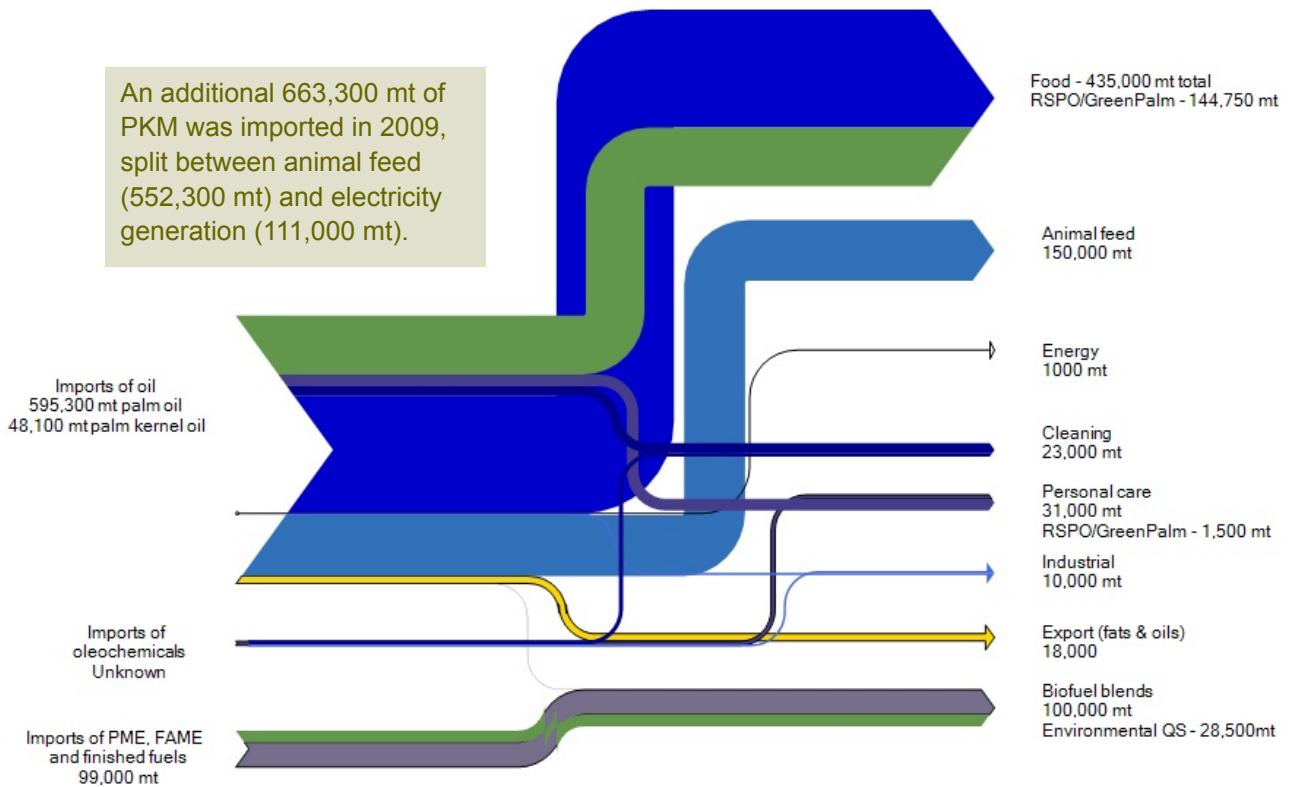


Figure B: Estimated use of palm oil by sector in the UK (2009/10), not including import of finished products

Figures compiled for the supply chain mapping study show that, of the total of 643,000 metric tonnes of palm oil and fats imported into the UK in 2009, purchases of certified sustainable palm oil products amounted to only approximately 24% of total UK consumption. These figures demonstrate both the need for urgent action and the potential benefits of well-planned policy intervention to address this area. The supply chain study also provided a rough estimate of the annual volume of palm oil products contained within finished products imported into the UK, somewhere in the order of 190,000 - 350,000 metric tonnes, and furthermore highlighted the large volumes of palm kernel meal being imported for the animal feed sector, none of which is currently from certified sources. To date, the animal feed sector has not been subject to the same level of market interest or pressure for sustainably sourced product, and therefore offers the potential for significant gains in sustainable sourcing through targeted awareness-raising and support.

Sourcing RSPO certified palm oil and its related products is currently possible, and available in volumes sufficient to cover the UK's consumption. However, the additional costs involved in sourcing certified sustainable palm oil increase the importance of ensuring widespread acceptance of policy actions. This would be achieved through leadership by government procurement policy. In the Netherlands, collective action by the sectoral industry associations was essential to the acceptance of the Dutch industry commitment to purchase certified sustainable palm oil.

Experience over the last five years from the UK Government's timber procurement policy provides important lessons. Defra commissioned an impact assessment of the timber procurement policy in late 2010; two of the main conclusions of the report are that:

- In addition to its direct impact on government supply chains, the timber policy has "over-delivered" in terms of wider market impacts, and the influence on the wider market in the development of similar procurement policies.
- The vast majority of organisations, both public sector procurement personnel and private sector suppliers, state that technical support from government has been essential to achieving policy implementation.

In order to better understand the implications and relative impact of potential interventions, a detailed analysis of the identified policy options was undertaken. This report presents the results of the policy options analysis. The policy options being considered consist of the following:

- Support and awareness raising activities
- A time-bound goal for achieving the reduction and/or removal of unsustainable palm oil from UK supply chains
- Voluntary or mandatory reporting of company performance
- Due diligence by companies demonstrating acceptable sourcing
- Government procurement policy promoting sustainable palm oil within its supply chains

These policy options are not mutually exclusive, and are all potential elements of a broad-based approach.

The project methodology included three main approaches to information collection:

- Desk-based collection/review of publicly available data and information.
- Collecting stakeholder views through a UK stakeholder workshop and online questionnaire.
- Systematic interviews with a sample of key informants, including a range of companies involved in the UK palm oil supply chain.

The coalition government is committed to being the greenest government ever, and sustainable palm oil provides an important opportunity to demonstrate this commitment in practice, by considering both its own procurement activities and opportunities to support UK businesses that have committed to sourcing sustainable palm oil.

Stakeholder views

Stakeholder consultation indicated particular interest in combining support and awareness raising activities with other interventions, particularly a time-bound goal with voluntary reporting. Linking a time-bound goal to company reporting would address some of the concerns raised by stakeholders about the need to ensure effective implementation. A stepwise approach to implementation for different types of palm products has also been proposed by some stakeholders, arising from the fact that some palm oil products can be more easily sourced as certified than others. A particular focus on support for small and medium-sized enterprises (SMEs), such as the need for solutions relating to the sourcing of certified palm oil derivatives, has also been requested.

There was some resistance from stakeholders to a mandatory reporting requirement, with more interest in a due diligence requirement, though further understanding and development of this latter option would be needed.

Government procurement policy promoting sustainable palm oil within its supply chains is seen by stakeholders both as an important market signal and a platform through which the UK Government can engage with other countries.

Impact assessment of policy options

The report includes general discussion of the potential benefits of each policy option, supplemented by a comparative analysis of the potential benefits. The identified policy options are evaluated in the table below in terms of their overall relative benefits, costs to government and costs to business. Overall predicted benefits, costs to government and costs to business are expressed in relative terms as high, medium or low.

Benefits relate to the potential level of contribution to the policy objective of increasing the proportion of sustainable palm oil consumed in the UK. Predicted cost levels are also expressed in relative terms, with reference to quantitative data where possible. The report also reviews the estimated financial costs of UK supply chains changing their purchasing from uncertified palm oil products to certified sustainable products, and the range of potential financial costs that could be incurred by government in launching a significant policy initiative.

Table A: Summary impact assessment of policy options

Policy option	Benefits	Costs to government	Cost to business
Support and awareness raising	High Limited leverage without reference to a legislative requirement, combination with a clear driver for change, can have much greater impact. Crucial in delivering successful implementation where there is a gap in understanding of the practical actions required.	High Potential costs of investing in the necessary capacity are relatively high. Support activities in pursuit of a procurement policy may be restricted to the public sector, or extended to private sector suppliers and contractors. Potential range of costs is extremely wide, does not have to be high in absolute terms. Activities can be targeted at specific parts of the supply chain.	Low Limited to the consequent costs of switching to CSPO, otherwise negligible.
Time-bound goal	High Powerful driver for change. Given the gap between current performance in UK supply chains and the overall policy objective, a time-bound goal would be a necessary element of any public procurement policy. It would not be tenable to set a goal for wider industry without also accepting it as an element of public procurement policy.	Medium Some level of cost to government, in terms of developing and maintaining some internal capacity for policy implementation activities.	Medium Will reflect the management costs of identifying supply chains and the direct costs of actually sourcing certified sustainable palm oil products.
Sustainability reporting	Medium Not a viable option in the public sector without an overwhelming cross-departmental commitment. Would effectively be aimed wholly at the private sector, as a tool to stimulate improved performance. Without reference to specific goals, the effectiveness of such a requirement would be reduced, but nevertheless the peer pressure in some sectors created by a reporting scheme could be significant.	Low Assuming that this is largely aimed at the private sector, costs to government would be accordingly low.	Medium Although reporting does entail costs to business in terms of management time and capacity, RSPO members are already obliged to prepare annual reports, and therefore any additional costs for them would be negligible. Sectors where RSPO membership is uncommon may not be subject to significant peer pressure, and therefore take-up of a reporting initiative may be lower. Business costs will also reflect the management costs of identifying supply chains and the direct costs of actually sourcing certified sustainable palm oil products.

Policy option	Benefits	Costs to government	Cost to business
<p>Private sector due diligence</p>	<p>Low Due diligence does not necessarily imply a commitment to purchase certified sustainable palm oil products (although increased purchasing would be a key element), but would require that unacceptable sources are eliminated from supply chains. However, without a clear motivating factor such as linkage to legislation or to a public procurement policy there would be limited incentive for action.</p>	<p>Low Assuming that this is aimed at the private sector, costs to government would be accordingly low.</p>	<p>High Implementing due diligence systems entails probably the most significant management costs to business relative to other policy options in terms of management time and capacity, through identifying supply chains and maintaining a risk management system, in addition to the direct costs of actually sourcing certified sustainable palm oil products.</p>
<p>Public sector procurement policy</p>	<p>High The considerable direct effects of public procurement policy on affected supply chains would have significant impact. In addition, it can be expected that there will also be significant indirect effects, arising from the exemplar and leadership effect of government policy, which also relates to practical factors where suppliers decide to implement a common standard across their business. It is almost certain that a time-bound goal would be a necessary element of any meaningful public procurement policy.</p>	<p>Medium Requires some level of cost to government, in terms of developing and maintaining some internal capacity for policy implementation activities.</p>	<p>Medium Will effectively require action from business, in terms of meeting the obligations that are defined; business costs will therefore reflect the increased management costs of identifying supply chains and the direct costs of actually sourcing certified sustainable palm oil products.</p>

Conclusions

Analysis of the relative benefits and costs of the policy options indicates that the highest positive impacts would be achieved by a combination of a public procurement policy that incorporates a time-bound goal, together with targeted support and awareness raising to galvanise action across UK supply chains. This approach would provide the necessary leadership and clarity of purpose, together with the support that is essential to ensure successful implementation. Specifically, this would involve the following:

- Government procurement policy to purchase only certified sustainable palm oil products by 2015. This target has broad acceptance and is widely adopted, including by the Dutch industry task force and by major UK companies.
- Collaboration with industry to encourage collective implementation efforts. There is an existing industry forum that can provide an effective platform for this. Discussions should also explore the potential for utilising existing annual reporting by RSPO members as the basis for an aggregated reporting initiative to cover UK supply chains.
- Support and awareness raising for public buyers and suppliers, to ensure successful achievement of the policy goal, which would also be effective in promoting best practice across the UK marketplace as a whole.

Costs to business of these policy options would not be high relative to some of the other options considered, largely limited to the direct costs of switching to certified sustainable palm oil. Costs to government, although high relative to some of the policy options, can in absolute terms remain modest, with a proportion of one officer's time supplemented by some targeted additional support and awareness activities. In practical terms, there is an immediate opportunity to integrate these activities with other sustainable procurement-related functions in a forthcoming tendering process.



1. Introduction

1.1 Background

Palm oil and its derivatives are produced from the fruits of the oil palm (*Elaeis guineensis*). Most oil palm (over 85% of global production) is grown in South East Asia, with smaller areas planted in Africa and Latin America.

Palm oil and its derivatives are used in a range of food, fuel, cosmetics and cleaning products. Palm oil is important for the UK market; research conducted in 2008 showed that 43 of the 100 best selling branded products in British supermarkets contained palm oil. It is estimated that 1 in 10 products on supermarket shelves contain palm oil, though often in relatively small quantities. Additionally, the UK Government's Renewable Transport Fuel Obligation (RTFO) has a mandatory volume blend for biofuels, and palm oil is an important feedstock for fatty acid methyl ester (FAME) blends with diesel. Furthermore, vegetable oil (such as palm oil) is eligible for the ROC subsidy scheme for renewable electricity producers, where sustainability is a criterion adopted by Ofgem.

Palm oil and its derivatives have been the focus of much attention over the past few years, in terms of the environmental and social impact of oil palm plantations, particularly given the rapid expansion of the planted area. Much of the criticism of oil palm plantations to date has focused on Indonesia and Malaysia, where some plantations have been established by converting natural forest and/or on peatland (which has potentially serious implications for GHG emissions), and at the expense of high conservation values (particularly valuable forest areas) and land rights.

The Roundtable for Sustainable Palm Oil (RSPO) was set up in 2004 with the aim of developing a sustainability standard and a certification system to bring certified sustainable palm oil to market. A multi-stakeholder approach has been used, bringing together producers, retailers, traders, NGOs and other stakeholders.

There are four main routes by which the RSPO's supply chain requirements can be met:

- **Identity Preserved (IP):** This methodology assures 100% of the physical product originates from a specific estate or plantation. However, the costs associated with such strict control mean that it is expensive and so it is not expected to be used except in exceptional or extremely high volume circumstances where the economics of scale could offset the costs.
- **Fully Segregated:** A fully segregated supply chain will ensure that various different CSPO sources are mixed together, but kept separate from non-certified palm oil. Thus, a new commodity grade will be created.
- **Mass Balance (MB):** The controlled mixing of certified & non-certified palm oil is the hallmark of a mass balance system.
- **Book and Claim:** In a comparable manner to carbon trading, book and claim operates through a system of parallel certificate trading between buyers and sellers.

The RSPO certification scheme is now up and running, with both production and chain of custody certificates having been issued. Many major UK and international businesses that use or sell palm oil have made commitments to 100% sourcing of sustainable palm oil by a given deadline, generally 2015.

However, concerns have also been raised that the market demand is not as high as expected. WWF undertook an analysis in 2009 of RSPO members' buying patterns of certified palm oil, which indicated many were not yet procuring certified sustainable palm oil. Without a market demand, producers are unlikely to undertake certification. RSPO figures for 2010 show that the situation has improved, showing that 56% of available certified palm oil was purchased.

One of the challenges businesses are facing in terms of actually using sustainable palm oil in products is the complexity and lack of transparency in the supply chain. UK businesses have largely been working individually on understanding and influencing their own palm oil supply chains.

1.2 Overview of UK palm oil consumption from the palm oil mapping study

In order to better understand the implications and relative impact of potential interventions, Defra identified the need for a supply chain mapping study to provide a more detailed understanding of UK palm oil consumption.

The supply chain mapping study that has been undertaken enables the UK oil palm supply chain to be clearly characterised, in terms of relative volumes being utilised by specific product sectors, and how these relate to the level of sustainability understanding and commitments of each sector. In addition to its value as a reference, and as a baseline against which to measure future changes, this analysis can inform discussions relating to the policy options detailed in section 3, below.

1.2.1 Volumes overview

The mapping study included the analysis of overall volume information. The figures below show the overall volumes of palm oil imported into the UK (excluding in final products) and its main uses.

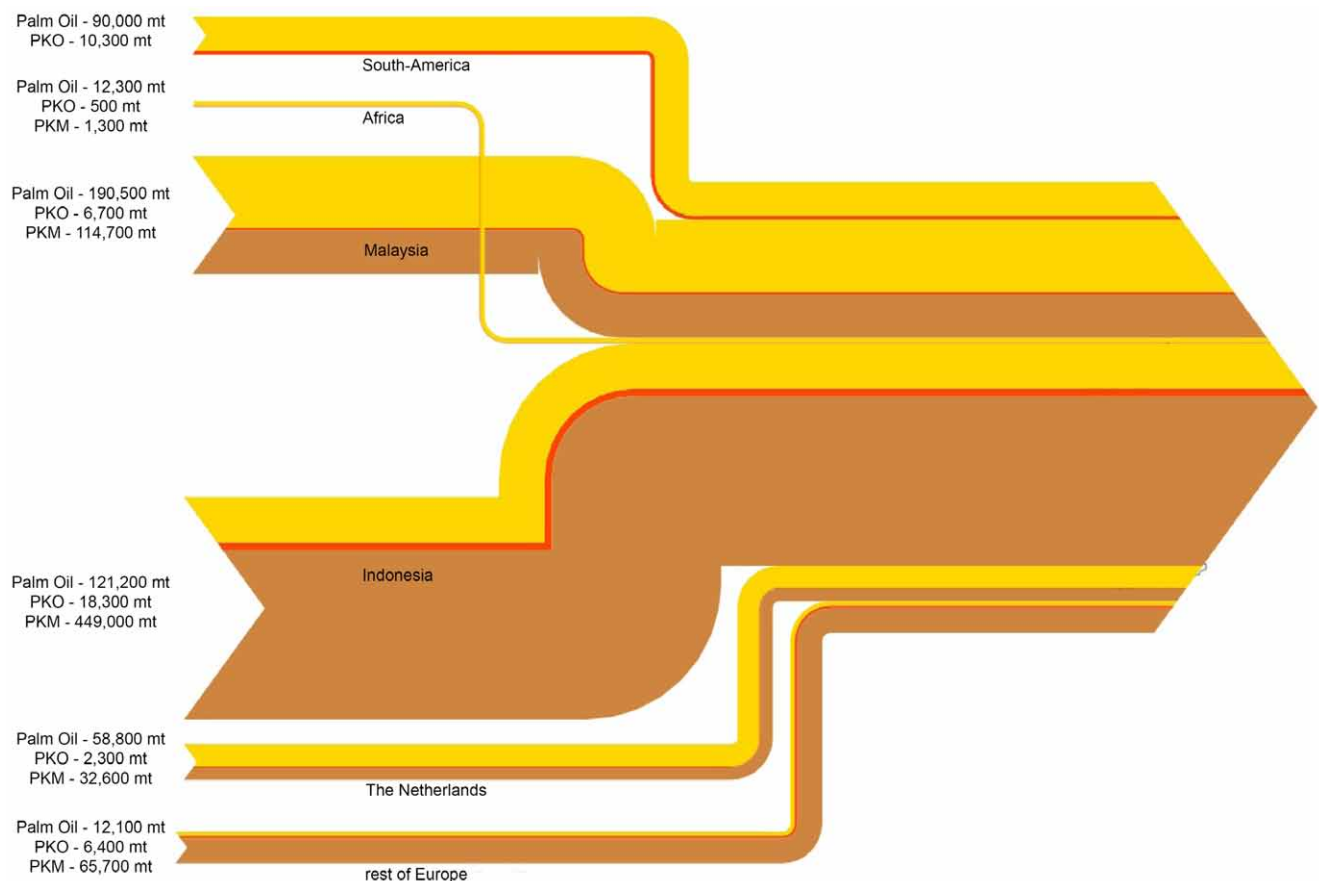


Figure 1.1: Import of palm oil, palm kernel oil and palm kernel meal into the UK (2009)

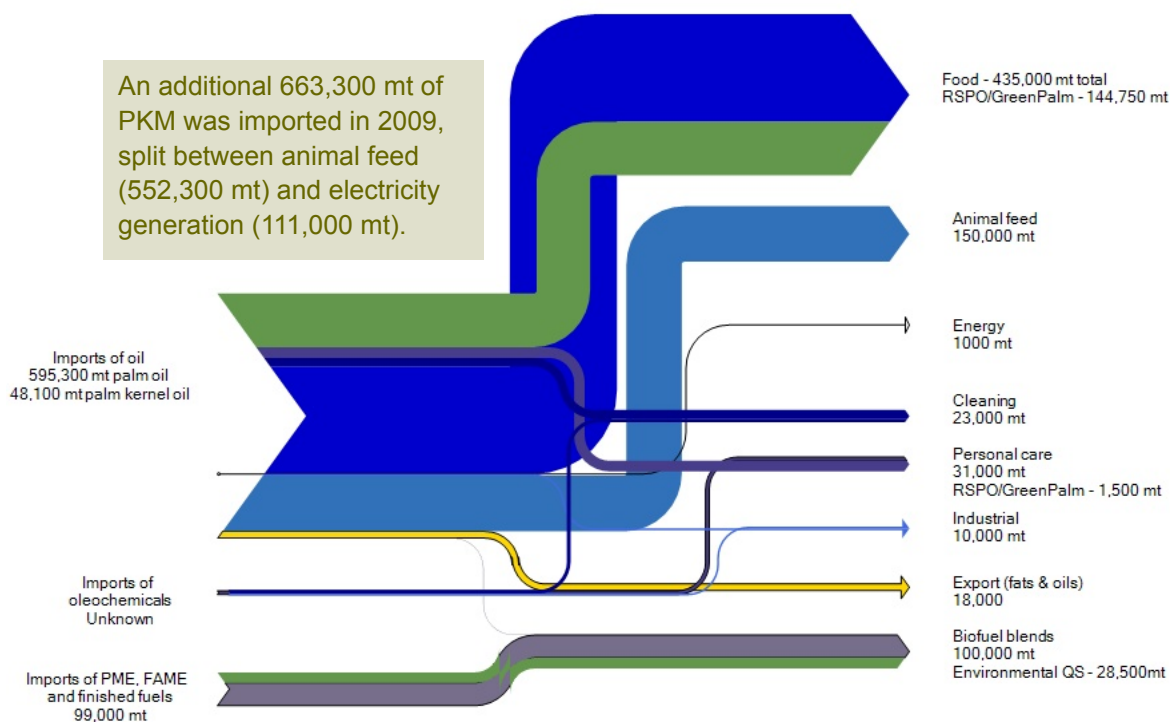


Figure 1.2: Estimated use of palm oil by sector in the UK (2009/10), not including import of finished products

Addressing the sustainability of palm oil includes the following products, which were imported into the UK in 2009:

- 643,400 mt palm oil products including:
 - 595,300 mt palm oil (including direct fractions, olein and stearin and palm fatty acid distillate)
 - 48,100 mt palm kernel oil
- 663,300 mt palm kernel meal
- The UK also imports palm oil and palm kernel derivatives, though these volumes are not possible to disaggregate by palm feedstock.

Out of the 643,400mt of palm oil and fats imported, it is estimated that approximately 55,000 mt is RSPO certified through segregated or mass balanced supply chains (including 40,000 mt from UK refineries and 15,000 from European refineries). A further 100,000 mt of GreenPalm certificates have been purchased by UK companies², totalling 155,000 mt of palm oil and palm kernel oil covered by sustainability certification. This is equivalent to 24% of the imports of palm fats and oils (i.e. not including palm kernel meal).

Progress towards securing sustainable supplies of palm oil and palm kernel oil is most advanced in the food sector, with around 33% of the volume covered. For comparison, the personal care sector has around 8% covered by certified volumes (derivatives being a significant challenge).

Furthermore, it is expected that if all retailers meet their commitments for sustainable palm oil in own-brand products by 2015, that 65,000 mt of palm oil will be covered. Overall volumes in products purchased by retailers amount to approximately 315,000 mt, which is over 60% of the overall market volume for the food and cleaning/personal care sectors.

²These are 2009 figures. The GreenPalm accounting year 2010 does not close until March 2011, and therefore 2010 are not yet available.

These figures do not include the import of finished products.

1.2.2 Potential supply chain leverage points

The points in the supply chain where there are the fewest operators handling the highest volumes can be considered critical leverage points. Targeting of policy interventions at these points can be expected to result in greater positive impacts. At each of these points, certain operators are already making significant progress in sustainable sourcing, while others have not yet done so. Potentially significant leverage points include the following:

- There are currently four refineries in the UK, one of which has an integrated supply chain back to RSPO certified supply chains, another which has recently been purchased by a company with oil palm plantation interests and a third that owns and operates the RSPO GreenPalm trading platform. Refined palm oil is also imported from a small number of vertically integrated companies, concentrated in the Netherlands.
- The food manufacturing industry is also highly consolidated, with much of the foods supplied to retailers and the service industry coming from a handful of players which in some cases control upwards of 80% of the market for specific food categories.
- For cleaning and personal care, whilst there are a few large players, they are being limited by the availability of palm derivatives such as surfactants, glycerine and emulsifiers from sustainable sources. In this case, the critical leverage points are the oleochemical manufacturers. Significant changes towards a sustainable palm supply now depend upon these manufacturers developing the availability of certified oleochemical derivatives.
- For the energy and biofuel sector, there are a limited number of fuel and energy companies operating in the UK. Global trading houses such as ADM, Bunge, Cargill, Dreyfus and Wilmar control much of the world's commodity flows.
- The end users, including consumers of retail and foodservice, as well as public and private sector companies contracting catering and cleaning services, have a role to play in terms of market signals, but the point at which the products are being formulated provides a much more direct influence. The specifiers are the retailers (for own-brand products), the wholesale delivered companies (who also have own-brand) and the manufacturers themselves.

The supply chain study also highlighted the large volumes of palm kernel meal being imported for the animal feed sector. To date, this sector has not been subject to the same level of market interest or pressure for sustainably sourced product, and therefore offers the potential for significant gains in sustainable sourcing through targeted awareness-raising and support.

2. Methodology

The project methodology included three main approaches to information collection:

- Desk-based collection/review of publicly available data and information.
- Collecting stakeholder views through a UK stakeholder workshop and online questionnaire.
- Systematic interviews with a sample of key informants, including a range of companies involved in the UK palm oil supply chain.

Key stakeholders comprised UK Government departments and agencies, companies supplying product into the UK market, producers, and NGOs. The approach to stakeholder engagement included the following elements:

- Supply chain interviews
- Individual meetings and interviews with selected stakeholders/key informants
- UK stakeholder workshop
- Online questionnaire

Supply chain interviews

Information relating to the UK palm oil supply chains was sought primarily through a systematic interview-based approach with a range of supply chain actors. Information was collected from at all stages of the supply chain.

Meetings with stakeholders

A series of meetings with key stakeholders were held over the course of the project, including in person (for some UK-based organisations) and by telephone (for organisations located abroad).

Online stakeholder questionnaire

An online questionnaire, focusing on the feasibility of the identified policy options aimed at increasing the demand for sustainably produced palm oil, was made available to all interested stakeholders. This ensured that all interested parties, not only those identified as key stakeholders, were able to contribute their views.

Stakeholder workshop

A workshop for wider government, business and NGO stakeholders was held in the UK to present the proposed policy options aimed at increasing the demand for sustainably produced palm oil. Input from stakeholders was sought through a facilitated session where participants actively contributed through a series of exercises. The workshop was held in London and facilitated by two Proforest staff members, and was attended by representatives of a wide range of stakeholder organisations.

Information and views collected from the supply chain questionnaires, stakeholder engagement and desk review all contributed to the analytical process of reviewing the policy options, including their overall feasibility, strengths, weaknesses and likely relative costs and benefits.

3. Policy options

3.1 Summary of proposed intervention & options

What is the policy under consideration?

As part of its ongoing commitment to wider sustainability issues, the UK Government is considering the introduction of specific policy interventions relating to sustainable palm oil sourcing and potential approaches to encourage improvements in sustainability of UK palm oil consumption. Defra aims to contribute to the wider processes leading to a transformation of the European marketplace for palm oil products, and has taken an active role in linking high level policy makers in the UK with counterparts in Indonesia. Defra has also convened a conference of business leaders involved throughout the palm oil supply chain in partnership with the Dutch Government, including producers and a wide range of end-users.

In order to better understand the implication and impact of these potential approaches, Defra has identified that a detailed analysis of the identified policy options is required. This report presents the results of the policy options analysis. Such policy interventions would contribute to each of Defra's strategic commitments³ to *".....encourage sustainable food production"*, *"help to enhance the environment and biodiversity..."* and *"support a strong and sustainable green economy"*.

What are the policy objectives and intended results?

The stated policy objective is to increase the proportion of sustainable palm oil consumed in the United Kingdom, with the consequent aims of preserving carbon stocks, protecting biodiversity, and addressing issues of workers' rights and land rights.

What policy options have been considered?

An initial range of potential policy options were agreed with Defra for consideration. Stakeholders were invited to comment on the options and suggest alternatives, and the option of voluntary reporting was added as a result of stakeholder input. The policy options therefore considered by this review were:

- Support and awareness raising (either as a stand-alone activity or as support for policy implementation)
- A time-bound goal for achieving sustainable palm oil in the UK
- Voluntary or mandatory reporting of company performance
- Due diligence by companies demonstrating acceptable sourcing
- Government procurement policy

These policy options are detailed in sections 3.2 – 3.6, below. They are not mutually exclusive, and are all potential elements of a broad-based approach. For each policy option, the report presents a detailed description, stakeholder views, and a summary of potential costs and benefits, in qualitative terms. Further analysis of potential costs, including quantitative information where possible, is presented in section 4.

Why is government intervention necessary?

The production capacity of certified palm oil plantation areas is currently 3.4 million mt of palm oil per year; of this, 2.3 million mt was available in the market in 2010. Oil palm growers have demonstrably responded to market demands for sustainable palm oil. However, buyers have been criticised for a slow response to this availability, such that globally, only 56% of the available volume was purchased

³ Defra Business Plan 2011 – 2015, dated November 2010.

in 2010. Figures compiled for the supply chain mapping study that accompanies this report show that UK purchases of certified sustainable palm oil product, in terms of imports of palm fats and oils, in 2009 amounted to only approximately 24% of total UK consumption. These figures demonstrate both the need for urgent action and the potential benefits of well-planned policy intervention to address this area. Furthermore, targeting of policy interventions at critical leverage points, namely the points in the supply chain where there are the fewest operators handling the highest volumes, can be expected to result in greater positive impacts.

- In addition to its direct impact on government supply chains, the timber policy has “over-delivered” in terms of wider market impacts, and the influence on the wider market in the development of similar procurement policies.
- The vast majority of organisations, both public sector procurement personnel and private sector suppliers, state that technical support from government has been essential to achieving policy implementation.

The coalition government is committed to being the greenest government ever, and sustainable palm oil provides an important opportunity to demonstrate this commitment in practice, by considering both its own procurement activities and opportunities to support UK businesses that have committed to sourcing sustainable palm oil.

3.2 Support and awareness raising

3.2.1 Description

Technical support

A potentially important action that could be taken by Government to encourage the move away from unsustainable palm oil could be the provision of technical support. Technical support can be targeted at consumers, or companies in the UK supply chain, as well as public sector buyers.

Support for consumers could include providing consumers with practical information on sustainability of palm oil (what aspects are included in ‘sustainable’ palm oil), and what to look for in terms of logos or labels in the marketplace. However, supply chain actors have indicated a reluctance to label products as sustainable palm, because their market research has shown that consumers tend not to purchase palm-containing products, thus negating any benefit of labelling a product as sustainable palm. Therefore providing information about brands, retail and service outlets may be more effective. Given that the Government is not allowed to promote specific companies, this would likely need to be a systematic and inclusive data collection and disclosure exercise (see Section 3.4 below for more options relating to disclosure).

Support for companies in the supply chain could include technical information on existing certification schemes, including step by step information about how to get certified and likely costs of certification. Practical information on setting and implementing purchasing policies, as well as case studies, could be provided. If applicable, information on available sources of funding to assist companies seeking certification could also be presented.

It is important to note that public procurement regulations prevent the UK Government from promoting any specific certification scheme. They can however set up a framework for analysing existing certification schemes, based on a technical definition of sustainable palm oil, and communicate the results to stakeholders.

Providing information and advice specifically geared towards SMEs in the UK supply chain is likely to be useful in transforming the market, according to stakeholders. Additionally, technical support and advice with respect to palm oil derivatives is needed.

Awareness raising

Communicating the availability of technical support, as well as the importance of procuring sustainable palm oil can be delivered through a variety of mechanisms. This may include for example a website, email newsletters, telephone helpline, workshops or public awareness campaigns. There are three key audiences to be considered when targeting awareness raising activities:

1. consumers
2. private sector
3. public sector

Consumers can be targeted through advertisement campaigns and website access. This could include either a dedicated website (see case studies below) or part of an existing website such as directgov.uk.

The main priority audiences relating to sustainable palm oil procurement would be private sector companies and public sector buyers, in order to reinforce implementation of actual and potential policy commitments. Both audiences are likely to benefit from practical implementation advice, including case studies, expert telephone and website advice; access to information on how to get certified and where to purchase certified material is also useful, but is accessible through RSPO. A number of mechanisms for supporting the public sector already exist and these are identified in further detail in Annex 1.

Case study: Love food hate waste

Love Food Hate Waste is a consumer-facing campaign which is funded by WRAP, the UK Government's Waste Resources Action Programme. WRAP was established as a not-for-profit company in 2000 and backed by government funding from England, Scotland, Wales and Northern Ireland. Love Food Hate Waste includes:

- A website www.lovefoodhatewaste.com including case studies, advice, recipes, tools such as menu planning
- Partnerships with retailers, food manufacturers, local authorities and community groups for awareness raising
- Guidelines, posters, outdoor advertising

Case study: Envirowise

Since 1994, Envirowise has been providing free, independent support to UK industry to become more resource efficient and save money.

Services offered include:

- Advice: website (performance indicators, savings calculators, waste accounting spreadsheets, management advice, good practice case studies)
- Events and workshops

Envirowise is a Government programme that is part of part of the Waste Resources and Action Programme (WRAP).

Case study: The Carbon Trust

The Carbon Trust provides specialist support to help business and the public sector cut carbon emissions, save energy and commercialise low carbon technologies.

Services offered include:

- Advice: website and telephone helpline (Reasons to cut carbon, Online training tool/action planning, Practical implementation tips, Carbon footprint calculator, Case studies)
- Awareness raising (billboards, free posters, stickers & brochures for businesses)
- Financing (0% business loans, Enhanced Capital Allowances - 100% first year tax relief on their qualifying capital expenditure on energy savings technologies)
- Venture capital and seed investment funds for emerging technology
- Certification against the Carbon Trust Standard

The Carbon Trust is a not-for-profit company established by the Government in 2001. It is partly funded from the Government's Climate Change Levy, a tax on electricity, gas, and coal.

3.2.2 Stakeholder views

Stakeholders were provided with an opportunity to comment on this policy as part of an online questionnaire. In general, stakeholders were supportive of this option, with over 77% of respondents supporting or strongly supporting this option. The need for supporting SMEs was consistently highlighted.

Stakeholders offered comments such as:

- 'This is a non-negotiable element - without strong communication and education, any implementation/reporting programme will not be successful.'
- 'We welcome this option, particularly given that there is already a lot of good work happening in the food and drink manufacturing sector [...] a PR campaign that could showcase some of this good work and encourage others to follow suit. Furthermore, small and medium sized enterprises represent nearly 99% of food and drink manufacturing companies in the UK and often struggle to find information and experts to talk to about the challenges of sourcing CSPO.'
- 'This feels like a big win for Defra - particularly with oleochemical manufacturers and suppliers of palm derivatives as this is the biggest barrier being faced by UK food industry.'
- 'This is a proper role for the government. It is feasible, cost effective and should be meaningful.'
- 'Help and support for SMEs would be very useful. They are individually small, but collectively significant.'

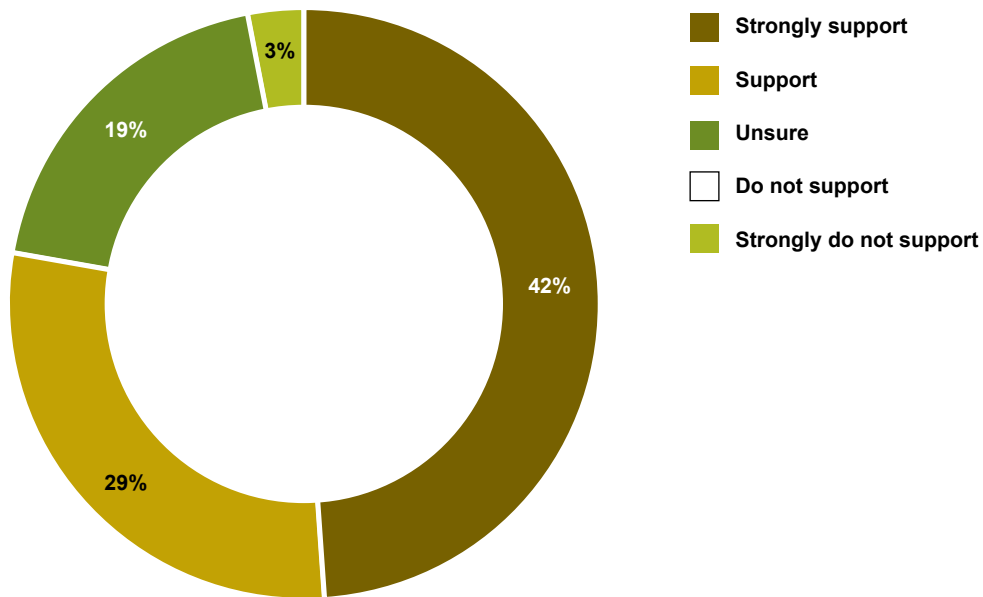


Figure 3.1. Stakeholders' response to awareness raising option

Around 20% indicated that they were unsure about this option, with a further 3% strongly not supporting this option, stating for example:

- 'As a retailer we are aware of the issue, and I do not know if information and advice is needed in other sectors.'
- 'Such information is already available without Government involvement.'

More than 80% of respondents who supported the option or were unsure indicated that information and advice on sustainable palm oil should be directed at UK manufacturers of products which contain palm oil. Almost 60% of respondents indicated that they thought information and advice should include support to the public sector. Just over half of the respondents to the online survey indicated that they thought information and advice should be provided to UK consumers.

Almost 90% of respondents indicated that websites are useful sources of support and information for businesses in the palm oil supply chain, and around 50% indicated training courses, printed materials and regular stakeholder meetings would be useful. Just over 22% thought telephone and email helplines would be useful sources of support and information.

This option was also discussed at the stakeholder workshop in London, where there was general support for this option, particularly as linked to the implementation support for some of the other policy options discussed. Comments included:

- 'SMEs would welcome info' and noted that 'support and awareness from a credible source' would be appreciated.

3.2.3 Costs and benefits

Technical support and awareness raising can be undertaken without reference to a legislative requirement, policy commitment or objective, but would have limited leverage. While some market sectors would benefit from general awareness raising relating to palm oil sourcing issues and supply chain best practices, without a clear motivating factor there would be limited incentive for action.

In combination with a clear driver for change such as a public procurement policy and/or time-bound goal, for example, support and awareness raising activities can have much greater impact. In fact, as the CPET experience shows (see section 3.6.1), where there is a gap in understanding of the practical actions required, they are crucial in delivering successful implementation of, and compliance with, such a policy commitment.

Potential costs to government of investing in the necessary capacity to deliver technical support and awareness raising activities are relatively high, compared to other policy options. Support activities in pursuit of a procurement policy may be restricted to the public sector, or extended to private sector suppliers and contractors. However, the potential range of costs is extremely wide (see section 4.2), and does not have to be high in absolute terms. Conclusions from the mapping study show that activities can be targeted at specific parts of the supply chain. Potential costs to business of this option are limited to the consequent costs of switching to CSPO, and are otherwise negligible.

3.3 Time-bound goal

3.3.1 Description

A time-bound goal involves the definition of a clear policy objective based on a transparent deadline. The deadline should strike a balance between being feasible and practicable (as failure to achieve the goal would have significant negative consequences), and being sufficiently demanding to create the necessary level of motivation and urgency for action. Therefore, if a time-bound goal were to be implemented, careful consideration of what is genuinely achievable is needed, as well as mechanisms to drive achievement and measure success. An obvious example of such a goal is that of the Dutch industry sector, which has committed to covering its domestic use with RSPO certified product (currently 480,000 mt) by 2015.

Sourcing RSPO certified palm oil, palm kernel oil and its direct fractions (olein and stearin) is currently possible, and available in volumes sufficient to cover the UK's consumption. The additional costs (detailed in section 4.1) involved in sourcing certified sustainable palm oil increase the importance of ensuring widespread acceptance of a time-bound goal. For example, in relation to the Dutch industry goal, the sectoral industry associations have signed up on behalf of their members, which has created the critical mass for ensuring collective action. The 2015 target has broad acceptance and is widely adopted. RSPO members are already required to prepare action plans for promoting sustainable palm oil production, procurement and consumption, and to report on progress. A number of leading UK companies have made commitments to achieving sustainable palm oil by 2015.

Palm oil derivatives, including surfactants (used in cleaning and laundry products), emollients (used in personal care products), flavourings and coatings (used in food products) are not currently available as segregated RSPO certified. For ingredients produced in the UK, this is because the demand is not sufficient to meet the minimum batch size, and the only refinery operating 100% segregated RSPO certified does not undertake tertiary fractionation of palm oil. For derivatives purchased from the commodity market, it is not possible to know whether palm kernel oil was used as the primary feedstock as derivatives are fungible (interchangeable). Stakeholders in the food sector have commented that 90% of the complexity comes from 10% of their volume, as made up by derivatives.

Palm Kernel Meal is covered by the RSPO, however the UK feed industry has so far been only involved in limited discussions about purchasing either sustainable meal or palm fatty acid distillate (PFAD – a by-product from refining crude palm oil). Furthermore, since PFAD is produced at the same time as the oil, an initial focus on PFAD (included as palm oil above) would include the feed industry.

Palm Kernel Shells are not yet available as RSPO certified and are not expected to be in the near future.

Therefore, a step-wise approach to consumption of sustainable palm oil in the UK is likely to be most practical and effective, starting with:

- **Palm oil and Palm Kernel Oil and direct fractions** (including PFAD, Olein and Stearin) – Achievable in the short term
- **Derivatives** – Achievable over the medium term, provided the market demand for sustainable palm-based derivatives justifies supply. This is also linked to achieving sustainability for palm kernel oil, which is the main surfactant feedstock.
- **Palm Kernel Meal** – Achievable over the medium term, currently not being sold as segregated certified meal, but GreenPalm certificates are available.
- **Palm Kernel Shells** – Achievable long term. Not currently covered by RSPO

Refineries based in the Netherlands (NL) are currently processing an estimated 2 million mt of palm oil, with potential access to over 1.5 million mt of segregated RSPO certified palm oil through their integrated supply chains. The UK imports around 58,000 mt from the NL annually, which could easily be covered within the capacity and availability of Dutch refineries. The UK also has a dedicated palm oil refinery with a capacity of 150,000 – 170,000 mt which is sourcing exclusively from its own RSPO certified plantations. Together these provide access to more than 200,000 mt of segregated RSPO certified palm oil, more than 30% of the UK market, which could be achieved in 2011.

A goal of 2015 for consumption of sustainable palm oil in the UK would not be limited by access to segregated RSPO certified palm oil and palm kernel oil, though recognising some companies may need to work with their supply chains over a period of time, and therefore it would be helpful to consider segregated, mass balance and book and claim approaches as appropriate mechanisms to meet a time-bound goal. Segregated derivatives may need to have a longer timeline, but by calculating their derivative use it is possible for companies to cover these volumes with GreenPalm certificates within the 2015 timeframe.

Potential limiting factors to achieving a time-bound goal would be the uncertain level of incentive for companies to purchase sustainable palm oil, and associated costs which may be linked to purchase of sustainable palm oil (see section 4.1 below). Options for driving purchases of sustainable palm oil are explored in the policy options detailed in this report.

Case study: Dutch Industry Commitment

In November 2010, the Task Force: Sustainable Palm Oil in the Netherlands stated they were working towards the following objective 'By the end of 2015 all palm oil destined for the Dutch market has to be sustainable.'

- 480,000 tons of palm oil is destined for the Dutch market
- Sustainable Palm oil is defined as certified according to RSPO principles and criteria and that the palm oil is being traded in conformity to one of the three RSPO-approved trading systems: 'segregation', 'mass balance' or 'book & claim'.
- In order to achieve this ambition, the participants in the Task Force Sustainable Palm Oil will undertake various activities aiming at urging businesses to procure and use sustainable palm oil.
- For each sector the activities will be detailed in an annual action programme. At the end of each year, the results of the Task Force Sustainable Palm Oil will be surveyed and published in a report.

The Task Force is chaired by the Dutch Product Board for Margarine, Fats and Oils (MVO). Members of the Task Force are industry associations who have committed on behalf of their members, including margarine, food retail, food industry, feed, oils and fats, potato processing and bakery and sweets.

3.3.2 Stakeholder views

Over 60% of respondents to the online survey were supportive of this option and out of this, 19% indicated they strongly supported this option. Around 15% were unsure and a further 25% did not support this policy option.

Several respondents commented on the importance of continuing momentum:

- 'By setting the goals, UK will make clear that the commitment for sustainable oil is there which will be a stimulus for growers in origin to continue their efforts for sustainable practices and maintain momentum that has been gained'
- 'Most of the major palm-using companies have already set time-bound goals for sustainable palm, often choosing the year 2015. The government can lend weight, momentum, guidance and perhaps incentives to these commitments by setting its own goal.'
- In addition, respondents noted that the Dutch industry has recently committed to 100% CSPO by 2015 and suggested that this would also be appropriate for the UK, noting for example 'Any lower target would send the wrong signal [...] there is no excuse to wait any longer, 3 million tonnes of certified capacity is already available and only 60% uptake'.

Just over 40% of respondents indicated that they thought the goal should be 100% CSPO by 2015, followed by 50% by 2015 or 100% by 2020 (both ~17%). Several respondents proposed more ambitious goals, including:

- 100% of all crude/refined palm oil used by the end of 2011 is from a sustainable source (rest covered as Mass Balance or GreenPalm) and 100% of all crude/refined palm kernel oil, olein & stearin (and blends thereof) is from a sustainable source by end 2012, (balance covered as Mass Balance), with all other grades not mandated beyond Mass Balance.

-
- An interim pledge ahead of 2015 would be a significant challenge but send a strong message of support to Malaysia, Indonesia and Papua New Guinea.

However, the complexity of the derivatives market was mentioned several times as being a barrier to achieving a time-bound target for sustainable palm oil in the near future.

Several stakeholders didn't think the UK market was big enough for a goal to be useful, noting for example 'We would consider any national target to be ineffective particularly given that the UK is only a small player in a global market'. Others, however, felt the impact went beyond the size of the market, stating 'the political and psychological value of the UK and Dutch goals outweighs their true market influence.'

Stakeholders also raised concerns about implementation – how such a time-bound goal would be enforced, and needing to give companies enough time to develop supply chains or find alternatives. One respondent for example noted that such a goal 'requires specific, measurable, achievable, realistic, time-based objective [a]nd a road map / support for how companies can achieve this.' Additionally, the point was made about displacement of unsustainable palm oil to other, non-discerning markets.

3.3.3 Costs and benefits

Setting a time-bound goal, purely as an element of a public procurement policy, or explicitly as a challenge to the whole industry, is a powerful driver for change. Section 3.3 details the range of considerations that are necessary in defining a time-bound goal. Given the gap between current performance (approximately 23% of palm oil in UK supply chains is certified sustainable) and the overall policy objective, a time-bound goal would be a necessary element of any public procurement policy. It would not be tenable to set a goal for wider industry without also accepting it as an element of public procurement policy.

Given overall volume information, which would entail a commitment to some research by government departments, a very early target can be set for palm oil purchases to be covered by GreenPalm certificates. A time-bound goal for the physical sourcing of certified sustainable palm oil, through segregated or mass balanced supply chains, could not realistically be inconsistent with existing industry commitments for 2015⁴.

Defining a time-bound goal requires some level of cost to government, in terms of developing and maintaining some internal capacity for policy implementation activities. Assuming that a time-bound goal effectively requires action from business, in terms of meeting the obligations that are defined by the goal, then business costs will reflect the management costs of identifying supply chains and the direct costs of actually sourcing certified sustainable palm oil products.

⁴ Note that some company commitments specify which supply chain options their objectives relate to; others are open and deliberately allow any option. However, given data on palm oil volumes purchased, there is no technical barrier to immediate purchase of GreenPalm certificates by any organisation.

3.4 Sustainability reporting

Given feedback from stakeholders at the workshop and in the online survey, two options are explored here: voluntary reporting and mandatory reporting.

3.4.1 Description

Voluntary reporting

Introducing a voluntary reporting framework on sustainable palm oil for UK companies would ideally require a platform for engagement, a credible reporting mechanism, and an organisation to manage and administer the initiative, as probable elements of a successful initiative. The Dutch task force commitment includes a reporting component, managed by MVO, the Dutch oils and fats industry board, who are tasked with aggregating the data submitted by individual companies. MVO have also provided the forum for industry associations to sign up to the initiative, and have the capacity for any necessary management.

Existing platforms for engagement which could be used as the focal point for voluntary reporting include:

- The 'Coalition for Sustainable Palm Oil' an informal forum for companies that have public commitments to purchase sustainable palm oil or exclude palm oil from unacceptable sources, coordinated by Unilever. Purchasing commitments have already been made by many of these companies, and reporting on these commitments is the next logical step.
- Palm Oil Leadership Group. In July 2010, Defra convened a high-level business meeting to discuss the potential for collaborative approaches to achieving a market transition to sustainable palm oil. This meeting concluded that there were two important potential purposes for such a group, namely:
 - Act as a Leadership Group of companies to provide an example of best practice, work together to identify and overcome barriers and, in some key areas, set new benchmarks for industry with high ambition actions.
 - Provide a forum for dialogue between industry and government on important issues relating to sustainable palm oil.

Additionally, the RSPO has recently introduced a requirement for member companies to report on volumes of CSPO purchased. Therefore, reporting on performance for RSPO member companies as part of a UK Government voluntary reporting initiative should be minimal administrative burden. In order for this to be most effective, issues such as timing and formats of reports should be considered in line with what the RSPO will be requiring.

Depending on the mechanism used, and the level of aggregation of any public reporting, voluntary reporting has several potentially valuable ways it can contribute to increased consumption of sustainable palm oil: by demonstrating progress towards a time-bound goal and thereby reinforcing effective implementation of sustainable sourcing, by using the information generated to communicate to consumers about the retailers, brands and services they purchase; by providing UK businesses with information about suppliers of sustainable palm-based ingredients, and finally to communicate activities to investors as a component of risk and/or corporate social responsibility, which is particularly relevant for publicly listed companies.

Disclosure of company performance⁵ is potentially an important incentive, and is likely to be most effective if companies that are not reporting are also listed. The Courtauld Commitment (see case study below) has highlighted company commitments and best practice case studies for each of their signatories in the final report for Phase 1 of the Commitment. The RTFO (case study below) includes both a mandatory volume threshold and voluntary carbon and sustainability performance targets, with the voluntary targets coupled with annual public disclosure of company performance. Equally, the Carbon Reduction Commitment (CRC - case study below) includes a league table of company performance, which aims to provide 'a strong financial and reputational incentive for participants to reduce energy consumption and CO₂ emissions'.

Case study: Courtauld Commitment

In 2005 the then Environment Minister and WRAP met with senior representatives from the majority of the leading UK grocery retailers, as well as the British Retail Consortium. The following commitments were agreed:

- Phase 1 (2005 – 2010) included targets for reducing packaging, reducing food waste and to design out packaging waste.
- Phase 2 (2010 - 2012) includes a target for reducing the carbon impact of this grocery packaging by 10%, to reduce UK household food and drink waste by 4% and to reduce traditional grocery product and packaging waste in the grocery supply chain by 5%.

This is being achieved through:

- Action taken by signatories
- Ongoing measuring and reporting between WRAP and the signatories
- Promoting WRAP's consumer-facing campaign 'Love Food Hate Waste'

Mandatory reporting

Implementation of mandatory reporting requirements for sustainable palm oil would potentially require the development of legislation, an IT reporting platform, implementation guidance and a government administrator for the order. Mandatory reporting enables progress against targets to be monitored, and in both case studies (see below), includes public disclosure of company performance.

In addition to disclosure, mandatory reporting can be linked to financial instruments. In terms of the RTFO, companies must either deliver a minimum amount of renewable fuels to the market or buy an equivalent number of credits. In the CRC, companies must purchase an energy allowance, such that reducing their energy use will reduce the financial cost of purchasing the allowance. Therefore, if this policy option is pursued, financial implications of poor reporting performance could be considered.

Mandatory reporting is most logically applied at the point in the supply chain where there are the fewest operators handling the largest volumes of palm oil or palm products. In the case of the UK supply chain, this is at the point of entry into the UK (where there are currently only 33 individuals and companies importing palm oil and its direct fractions, 15 of which are repeat importers).

⁵ This can be undertaken without revealing commercially confidential information, for example reporting actual numbers to Government, but only disclosing percent-based performance figures publicly

Case study: Renewable Transport Fuel Obligation

As a result of EU Directive 2003/30/EC, the Department for Transport undertook a feasibility study in 2005, and announced that the Renewable Transport Fuel Obligation would be implemented in April 2008, with a 5% target for renewable transport fuels.

- All companies supplying >450,000 L transport fuel to UK market are legally obligated to sell a minimum volume of renewable fuels, buy renewable transport fuel certificates from another company or pay a buy-out price to the Government
- Companies are legally obligated to report volumes, biofuel type, country of origin, carbon and sustainability information on a monthly basis
- The Renewable Fuels Agency publish quarterly reports of company performance against volume, carbon and sustainability targets, and aggregated information about volumes of biofuel, country of origin, carbon and sustainability information
- Company reports are annually audited by an external verifier, paid for by the obligated company

The Department for Transport is responsible for the administration of the RTFO and operates a website, detailed guidance and regular stakeholder meetings.

Case study: Carbon Reduction Commitment Energy Efficiency Scheme (CRC)

The Carbon Reduction Commitment Energy Efficiency Scheme (CRC) is a mandatory carbon emissions reporting and pricing scheme to cover all organisations using more than 6,000MWh per year of electricity. The requirements are set out in the CRC Energy Efficiency Order 2010.

- Companies must measure and report their carbon emissions annually. The first annual report of emissions is due in July 2011.
- Starting in 2012, participants will buy allowances from Government each year to cover their emissions in the previous year. This means that organisations that decrease their emissions can lower their costs under the CRC.
- A publicly available CRC performance league table will show how each participant is performing compared to others in the scheme.
- Each year up to 20 per cent of participants will be audited in a rolling programme of audits. For inaccurate reporting the proposed penalty is £40 per tonne of carbon dioxide.

The scheme started in April 2010 and is administered by the Environment Agency, the Scottish Environment Protection Agency and the Chief Inspector (Northern Ireland Environment Agency).

3.4.2 Stakeholder views

Stakeholder opinion in the online survey for mandatory reporting was split; 39% supported this option and 42% did not, with a further 19% unsure.

The main concerns raised were about commercial confidentiality and the additional administrative burden for companies in the supply chain. Responses tended to vary based on what part of the supply chain respondents were operating in, for example:

- ‘Unworkable, a bureaucratic nightmare and breaching commercial confidentiality’
- ‘From a foodservice perspective such a reporting exercise would be extremely expensive to implement...’
- ‘This will be too onerous for most companies to implement - perhaps it is feasible to introduce performance measurement as the programme gathers momentum’
- ‘DEFRA need to be careful not to under-estimate the significance or time and resource required from organisations all along the supply chain in implementing such a programme of disclosure.’
- ‘Reporting should be considered at a later stage once companies have been able to get to grips with their understanding of which products in their supply chain contain palm oil / potential substitutes - costs incurred.’
- ‘Transparency will stimulate companies to sign up with RSPO and to start sourcing sustainable palm oil very easy and effective way.’
- ‘This is essentially requiring companies to report on purchases of certified and non certified palm oil purchases. That in itself is not difficult and will encourage companies to push for more certified palm.’

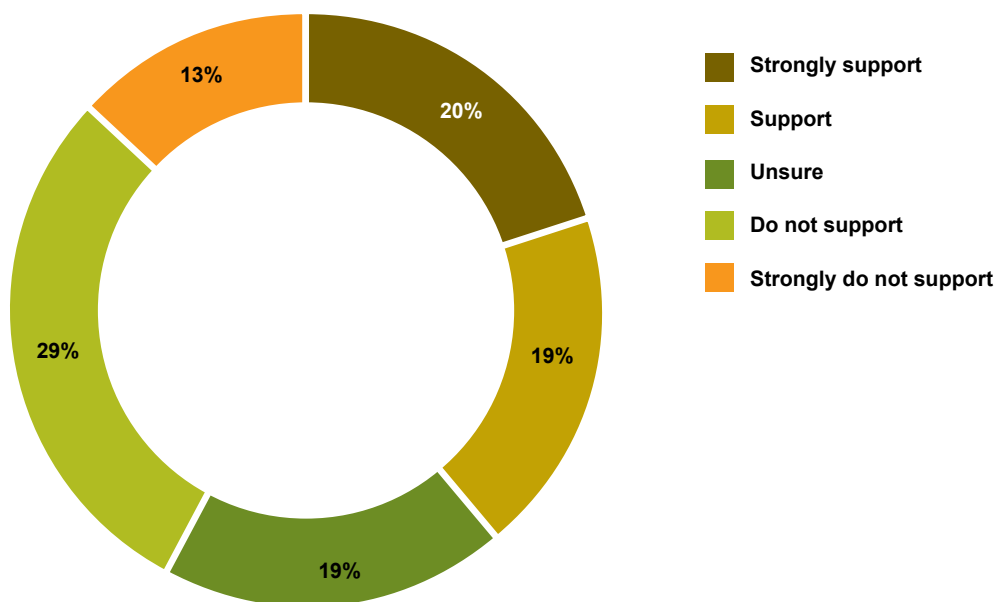


Figure 3.2. Stakeholders' response to mandatory reporting option

Over 75% of respondents who supported this policy option thought it should apply to all forms and uses of palm oil, though there was a suggestion that a stepwise approach beginning with palm oil, followed by direct fractions and finally oleochemical derivatives should be taken.

Reporting and measuring is also linked to implementation of the previous two options explored (support and awareness raising and a time-bound goal), with one respondent noting that 'consumers are effectively excluded from the debate by virtue of palm oil rarely being labelled and so cannot reflect their purchasing preferences accordingly; in the absence of mandated labelling of all palm oil, a time-bound national goal with an obligation to transparency is the next best alternative'.

Reporting frameworks were also discussed at the stakeholder workshop. Participants were generally wary of any legislative reporting requirements; however there was reasonable support for the alternative of voluntary reporting approaches, and it was a company in the supply chain that first suggested looking to the Courtauld Commitment for packaging as a model for sustainable palm oil.

3.4.3 Costs and benefits

The difficulties of implementing reporting in the public sector relating to the timber procurement policy, possibly the highest profile green PPP, have shown that this is not a viable option in the public sector without an overwhelming cross-departmental commitment. This means that reporting would effectively be aimed wholly at the private sector, as a tool to stimulate improved performance. Without reference to specific goals, the effectiveness of such a requirement would be reduced, but nevertheless the peer pressure in some sectors created by a reporting scheme could be significant.

Assuming that this is largely aimed at the private sector, costs to government would be accordingly low. Although reporting does entail costs to business in terms of management time and capacity, RSPO members are already obliged to prepare annual reports, and therefore any additional costs for them would be negligible. Sectors where RSPO membership is uncommon may not be subject to significant peer pressure, and therefore take-up of a reporting initiative may be lower. Business costs will also reflect the management costs of identifying supply chains and the direct costs of actually sourcing certified sustainable palm oil products.

3.5 Private sector due diligence

3.5.1 Description

The concept of due diligence requires the purchaser of palm oil products to take reasonable precautions to exclude palm oil products from their supply chains that originate from unacceptable sources, for example from areas where land use change has resulted in social conflict or the loss of high conservation values. This would typically involve risk-based mechanisms to scrutinise sources and take appropriate actions to mitigate where risk levels are high.

If the same approach for palm oil is followed as is currently foreseen for the EU Timber Regulation, implementation would require the designation of a competent authority, would involve the development of an ongoing monitoring and audit programme, and would necessitate the provision of guidance and technical support for compliance. It should be noted that there are real opportunities for capitalising on the methodologies and capacity development involved in the development and implementation of the mandatory EU timber requirements, should this option be pursued.

An important first consideration would be the scope of due diligence requirements – whether they should be based on legality, or whether they will focus on specific sustainability requirements and

land use change. It has also been suggested that illegal forest clearance could be the focus of the requirements.

Palm oil differs from timber in that almost 90% of the UK supply comes from Indonesia and Malaysia. There are many more timber producing countries, and furthermore a range of species, some of which are more likely to have been logged illegally than others. Implementation of a due diligence system for timber could include a risk analysis by country and species, whereas that would be of limited value for palm oil. Because of the fungible nature of palm oil (bulk storage and pipelines), it is also extremely challenging to implement an 'identity preserved' level of traceability to demonstrate that a particular batch originated from a specific source plantation.

The timetable for implementation of the EU Timber Regulation effectively amounts to a time-bound goal with 100% implementation by March 2013 for legal timber, and in order to develop a similar approach for palm, the same considerations as discussed in section 3.3 above would need to be taken into account in terms of what was achievable.

Case study: EU Timber Regulation

The EU Timber Regulation introduces a prohibition on placing illegally sourced timber and timber products on the EU market, and requires a due diligence approach from operators to ensure effective compliance. The Regulation:

- Aims to exclude illegal timber from EU market
- Requires operators first placing timber on the EU market to implement a due diligence system to adequately mitigate any risk that the timber was harvested illegally, including risk assessment procedures
- Requires traders throughout the supply chain to be able to identify their suppliers and customers
- Involves monitoring organisations and competent authorities to check performance

EU Member States are now developing their own implementation processes, and the Regulation enters into force in March 2013.

3.5.2 Stakeholder views

There was a lot of interest in this option at the stakeholder workshop, with one break-out group identifying this as the strongest option, but also the most complex. Workshop participants discussed what would be appropriate measures to confirm due diligence (e.g. audits of companies), and whether this could be potentially implemented as a voluntary measure rather than a legal obligation. The content of potential due diligence requirements were discussed, including whether it should refer to compliance with legal requirements, or sustainability (which would need to be defined). It was suggested that the due diligence option could be a follow-on from a voluntary target for sustainable palm oil (e.g. 2015) after which point companies would be legally required to demonstrate due diligence.

However, some participants were concerned about legislation that was limited to a single ingredient and that other commodities may become more pressing in the medium term, such that legislation would not provide the flexibility for changing focus.

Over 55% of respondents to the online questionnaire supported this option, with around 16% unsure, 16% not supporting and 10% strongly not supporting this option.

A number of respondents made the point that RSPO should be the requirement rather than legally sourced palm, stating for example:

- ‘As long as use of a scheme such as the RSPO acts as due diligence.’
- ‘I think we need due diligence on a different standard e.g. RSPO not on a narrow elements like ‘legality’.’
- ‘The RSPO fills this function - Government should encourage all to support the RSPO’
- ‘No need for UK government to implement it, covered by RSPO supply chain certification’
- ‘Certification systems such as RSPO include due diligence, and I'd much prefer to see clear commitments to certified sustainable oil than a proliferation of due diligence systems.’

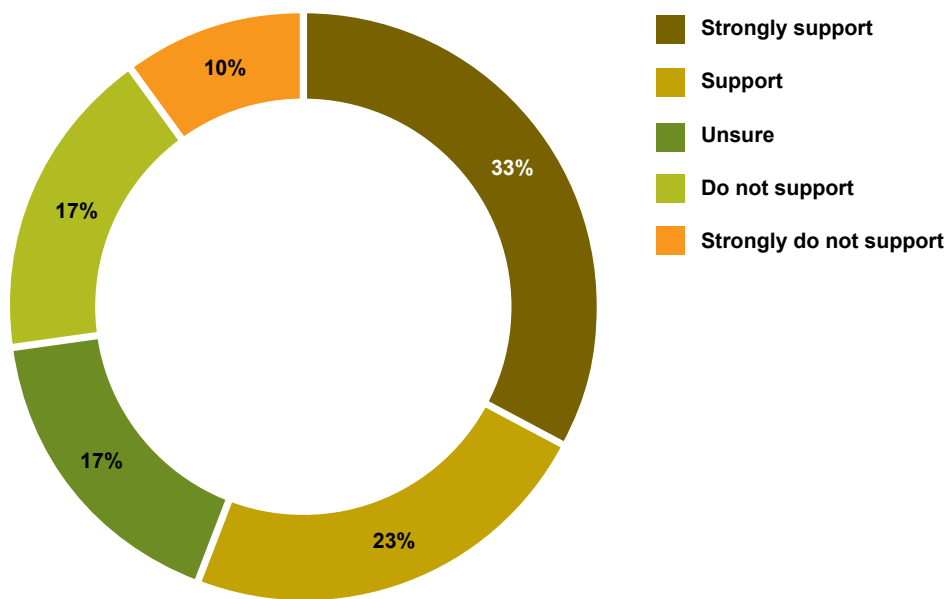


Figure 3.3. Stakeholders' response to private sector due diligence option

Around 60% of respondents thought this should apply to all palm uses, with over 25% singling out crude and refined palm oil, palm kernel oil, olein, and stearin. It was also suggested that this approach should be applied only to the largest users. Similarly, around 60% of respondents thought all users of palm oil should be covered, 28% thought it should only apply to importers and 16% thought government procurement should be included in this option. Around 8% thought it should be applied to manufacturers. There was less support for including retail outlets, service providers/facilities management and distributors.

Around half of the respondents thought this option would be both expensive and difficult to implement, though more than 40% thought it would be likely to be effective.

-
- ‘Very difficult to put an effective reporting system in place given the complexity of the supply chain. However worth a try as the information would be very useful.’
 - ‘It will be easy if the supply oil palm plantation is certified as sustainable, or if there is a trading platform for such as GreenPalm for "mass balance" purchases of certified sustainable palm oil, that can be counted towards whatever physical product is brought into the country.’

3.5.3 Costs and benefits

Due diligence does not necessarily imply a commitment to purchase certified sustainable palm oil products (although increased purchasing would be a key element), but would require that unacceptable sources are eliminated from supply chains. However, without a clear motivating factor such as linkage to legislation or to a public procurement policy there would be limited incentive for action.

Assuming that this is aimed at the private sector, costs to government would be accordingly low. Implementing due diligence systems entails probably the most significant management costs to business relative to other policy options in terms of management time and capacity, through identifying supply chains and maintaining a risk management system, in addition to the direct costs of actually sourcing certified sustainable palm oil products.

3.6 Public sector procurement policy

3.6.1 Description

Defra notes that government spends around £236 billion annually on “routine products and services”, and that the UK is committed to an EU objective that “50% of relevant tendering procedures across the public sector to be green”. The potential of sustainable public procurement as a policy instrument is now well understood and recognised, and experience with other policies (such as the timber procurement policy, see case study) confirms the impact that can be achieved both through direct procurement affecting suppliers and through a ‘demonstration effect’ on the wider marketplace.

It is also important to consider how additional requirements related to sustainable palm oil can be integrated into existing programmes, some of which are identified below. This is also an important consideration given the recent austerity measures across government.

Government Buying Standards

Government Buying Standards provide a clear mechanism to make it easier for government buyers to buy sustainably. All central government departments and their related organisations must ensure that they meet these minimum mandatory specifications when buying products and services. They include:

- official specifications that all government buyers must follow when procuring a range of products
- information about sustainable procurement and how to apply it when buying
- direct links to websites with lists of products that meet the standards.

Therefore, developing a Government Buying Standard for sustainable palm oil, or more likely a palm oil procurement policy that can be easily incorporated into other Buying Standards, should cover all of these aspects.

There are currently no Government Buying Standards for food, but these are being introduced in March 2011. Commitments to develop a range of new Buying Standards are included in the current Defra Business Plan. Given a public procurement policy initiative for sustainable palm oil, such Buying Standards could then incorporate specific provisions relating to sustainable palm oil, taking into account any stepwise recommendations with respect to specific products or derivatives. For example, the recently introduced Buying Standard for furniture includes reference to the government's sustainable timber procurement policy. There is already a Government Buying Standard for cleaning, though any adjustment to include sustainable palm oil would need to take into account the current challenges with respect to palm oil derivatives.

Buying Solutions, the Government's national procurement partner, operates framework contracts for facilities management that would be required to incorporate any new Government Buying Standards related to procurement of sustainable palm oil.

Case Studies

The government's timber procurement policy (see below) provides an excellent example of a policy commitment to sustainable sourcing, with technical support for effective implementation.

Case study: UK Government timber procurement policy

Policy development: the UK Government's timber procurement policy is mandatory, has been in place since 2000 and now requires central government departments, their executive agencies and non-departmental public bodies only to procure timber and wood-derived products originating from either legal and sustainable or FLEGT licensed or equivalent sources. Prior to 2009, the policy stipulated a minimum requirement of legality.

CPET: the Central Point of Expertise on Timber Procurement (CPET) is a service of the UK Government which was set up in 2005 by Defra and is operated by Proforest, to support effective implementation of the policy. CPET provides ongoing support to both public buyers and to their suppliers and contractors on how to meet the policy, through such mechanisms as detailed procurement guidance including tools such as checklists and model contract clauses, a helpline, training workshops and a website. CPET has also been instrumental in providing leadership at an EU level on developing and harmonising relevant procurement policies.

Policy options: the timber policy provides an excellent example of the development of sustainable public procurement policy, crucially with the provision of significant technical support and awareness raising activities to ensure effective implementation. Time-bound goals were not utilised, as policy was based on levels of performance that should be achievable and demonstrable with immediate effect. Reporting has also not been a major feature of policy implementation, although Defra has led some efforts at identifying potential options for departmental reporting. Due diligence has not been particularly relevant; the focus of implementation is on evidence of compliance from suppliers and contractors.

Lessons: Defra commissioned an impact assessment of the timber procurement policy in late 2010. The analysis focused on three key parts: the impact on trade and on sustainable forest management; the role of the UK Government as a leader in developing and harmonising timber procurement policies; and the role of CPET. Two of the main conclusions of the report are that:

- In addition to its direct impact on government supply chains, the timber policy has “over-delivered” in terms of wider market impacts, and the influence on the wider market in the development of similar procurement policies.
- The vast majority of organisations, both public sector procurement personnel and private sector suppliers, state that without CPET, they would not have implemented the Government's policy or would have done so with difficulty.

The Public Sector Food Procurement Initiative (PSFPI – see below) provided a significant example of an initiative to support government procurement through measures to promote best practice.

Case study: Public Sector Food Procurement Initiative

The Public Sector Food Procurement Initiative (PSFPI) was launched by Defra in 2003 to support the Government's Sustainable Farming and Food Strategy for England. The PSFPI had six priority objectives aiming to deliver a 'world-class sustainable farming and food sector that contributes to a better environment and healthier and prosperous communities'. Although now closed, this, such as:

- Comprehensive web site with guidance, tools and case studies; national and regional conferences and workshops for buyers and suppliers; regional pilots and projects to develop the supply side.
- Catering Services and Food Procurement toolkit (sample Pre-Qualification Questionnaire and Invitation to Tender, including a model specification clause covering farm assurance and organic standards that Assured Food Standards).
- Annual reporting on the proportion of domestically produced food used by Government departments.
- Food Procurement Implementation Group (FPIG), PSFPI Practitioners Group, Food Procurement Group (FPG), Government Offices for the Regions Steering Group.

3.6.2 Stakeholder views

At the stakeholder workshop, there was strong support for this option, with comments particularly focused on government's role as a leader, and as a mechanism to support industry players who have already taken steps to procure sustainable palm oil. Support for this option was linked to the provision of technical support and awareness raising (see Section 3.2 above). All of the breakout groups in the workshop identified this as a useful option to pursue.

Just over 50% of respondents to the online questionnaire indicated they supported this option, with a further 34% unsure. A further 16% of respondents did not support this policy option.

Stakeholders who did not support this option were mainly concerned about the effectiveness and costs associated with this approach, particularly given the potentially limited impact through direct government procurement. Those that were unsure generally included comments that it could work, with appropriate consideration of time-scales and step-wise approaches. Stakeholders who supported this option particularly commented on it being a market signal and continuing the UK's role as a leader in this area.

Stakeholders that supported this option provided comments such as:

- 'This seems like a basic requirement.'
- 'The Government has a potentially huge role to play in the debate as a major buyer (albeit indirectly) and consumer of palm oil itself as well as an entity that is trying to persuade UK citizens to adopt more sustainable lifestyles and to take the risks of climate change and biodiversity loss seriously.'
- Respondents who indicated they were unsure offered such comments as:
- 'But with realistic timescales by sector to implement e.g. the food supply chain would potentially need much longer to implement / comply than another, less complex sector'

- ‘Potentially this would be a positive step, however, careful consideration needs to be given to timescales / targets. Currently, many of the contractors supplying public sector have complex supply chains - particularly food related - and the task of identifying individual product ingredients would be very expensive and time consuming.’
- ‘...It is vital that an extra layer of buying standards does not result in higher costs for Government procurement particularly in times of austerity.’
- Some stakeholders have commented that their experience with previous government procurement was that the PQQ and ITT all included requirements to provide organic and fair-trade goods, but once the contract was let, that Departments did not actually procure these goods.
- Comments from stakeholders who did not support this option included:
 - ‘Will not cover a large proportion of palm oil used in the UK’
 - ‘Is this setting suppliers up to fail? How will suppliers find sustainable derivatives?’

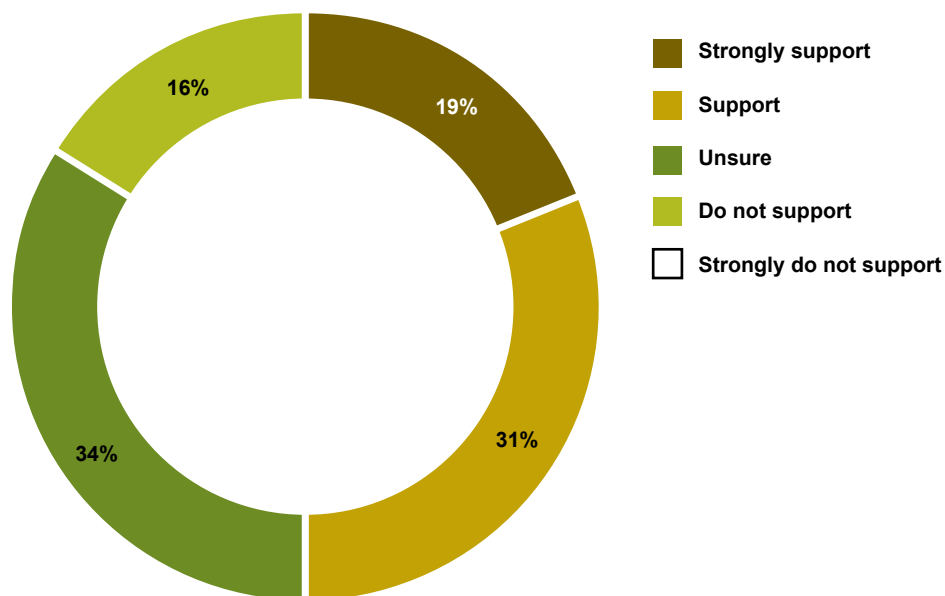


Figure 3.4. Stakeholders' opinions on public sector procurement policy option

3.6.3 Costs and benefits

The considerable direct effects of public procurement policy on affected supply chains would have significant impact. In addition, as the timber public procurement policy experience has shown, it can be expected that there will also be significant indirect effects, arising from the exemplar and leadership effect of government policy, which also relates to practical factors where suppliers decide to implement a common standard across their business. As noted above, it is almost certain that a time-bound goal would be a necessary element of any meaningful public procurement policy.

Defining a public procurement policy requires some level of cost to government, in terms of developing and maintaining some internal capacity for policy implementation activities. A public procurement policy will effectively require action from business, in terms of meeting the obligations that are defined; business costs will therefore reflect the increased management costs of identifying supply chains and the direct costs of actually sourcing certified sustainable palm oil products.

4. Potential impacts of policy options

This section reviews the potential impacts of the identified policy options, in terms of the following:

- All policy options aim to stimulate palm oil supply chains to change their purchasing from uncertified palm oil products to certified sustainable products. Section 4.1 reviews the estimated financial costs of this change to UK supply chains.
- Section 4.2 summarises the potential costs and benefits of the identified policy options (based on the more detailed analysis in section 3), and includes the range of potential financial costs that could be incurred by government in implementing the range of options.
- Section 4.3 presents brief conclusions, in terms of the recommendations for a government policy initiative on sustainable palm oil.

4.1 Potential supply chain costs of switching to certified sustainable palm oil

All policy options are aiming towards increasing the proportion of certified sustainable palm oil consumed, and therefore these supply chain costs are applicable to all of the options. Potential costs for each processor comprise direct costs of RSPO membership and costs of certification, as well as transaction costs including any price premium. It is worth noting that supply chain actors have consistently stated at RSPO fora that any increased costs cannot be passed on to final consumers, and therefore have to be absorbed by the supply chain. Direct and indirect costs of being certified are most significant at the plantation level – with the exception of any price premium (discussed below) these costs for plantation areas will not impact directly upon UK supply chains.

In discussing costs, it is particularly important to be clear about the different supply chain options that are permitted by RSPO rules. As detailed above in section 1.1, there are four main routes by which the RSPO CSPO supply chain requirements can be met:

- **Identity Preserved (IP)**
- **Fully Segregated**
- **Mass Balance (MB)**
- **Book and Claim**

In order to minimise costs and increase volumes, the RSPO has endorsed two intermediary companies to act as independent arbitrators in the supply chain, namely GreenPalm and UTZ Certified. GreenPalm is a privately run company established to act as a brokerage between sellers and buyers trading in CSPO certificates. Needless to say, this is the most cost effective option for trading certified palm oil, but it has the lowest level of traceability. UTZ Certified is a NGO and it launched its RSPO Mass Balance programme in December 2008 and Segregation programme in March 2009. UTZ Certified is the RSPO's only endorsed system for recording the trading of traceable CSPO and all players involved in the supply chain must be members of the RSPO.

Direct costs of supply chain certification

Assuming the RSPO is the main implementation mechanism available, it is estimated that large UK manufacturers will incur costs of up to £5,000/year. Small and medium sized manufacturers are likely to incur lower costs, with an estimated annual cost of around £1,000. This does not include costs of implementation, which may include the costs of a new staff member, particularly for larger organisations.

These direct costs consist of RSPO membership fees and certification costs. Organisations must be RSPO members in order to be supply chain certified (not required for GreenPalm). The RSPO membership fee structure is as following:

- Ordinary member - €2000.00/year (companies in the supply chain)
- Affiliate members - €500.00/year (indirectly involved in the supply chain)
- Supply chain associates - €100.00/year (purchase <500 mt/year)

The direct cost of certification will vary based on the size of the operations. Certification auditing of a single supply chain site could cost £1,000 - £3,000 annually depending on scale. This does not including indirect costs of compliance for the company (e.g. staff time, development and implementation of systems), which are variable depending on size and complexity of the company, and the amount of preparation required to meet certification requirements.

Transaction costs of purchasing CSPO

It has been estimated that the cost of switching from mainstream palm oil to certified sustainable palm oil in December 2010 was US\$6.50 per metric ton (mt) if using the Book & Claim supply chain, affording a total cost of \$650,000 based on 100,000 mt (approximate total 2009 consumption). In contrast, the segregated supply chain incurred an average cost of US\$25 per tonne to yield a total cost of \$1,375,000 based on 55,000 mt (approximate total 2009 consumption). Hence, the combined supply chains cost \$2,025,000 based on a total of 155,000 mt. These figures are aggregated for palm oil and palm kernel oil.

This volume represents approximately 24% of the total UK consumption of palm oil in 2010. If 100% of the UK's palm oil had been switched to sustainable palm oil, the cost would be directly related to the choice of supply chain chosen, for example if 50% of all palm oil and palm kernel oil consumption was consumed utilizing a Book & Claim certificate, the approximate cost would have been \$9.5 million for 2009.

In the medium to long term, it is unlikely that the CSPO price premium will settle at a price much greater than the cost of compliance with the certification scheme. The volumes of CSPO should be more than sufficient to meet demand, even with novel volume growth in consumption from the energy sector. Furthermore, it should be remembered that a large proportion of European food and oleochemical end-users may not switch to a more expensive CSPO unless either mandated or through collective commitments.

The costs of producer certification are estimated to be about US\$10 per mt. There seems little reason why an end-user would bid much more than this when there is abundant supply, so US\$10 per metric ton is expected to become the typical price for a certificate once a market equilibrium has been reached.

Aside from the supply demand balance, palm oil ultimately trades in competition with other vegetable oils and its price is its main advantage. Any sustained price premium could potentially erode this competitive advantage and result in palm oil being removed from ingredient profiles in favour of other oils where possible; this is highly unlikely to become a significant factor given the very small proportion of the overall price represented by the premium.

The end-user choice of Book & Claim or Segregated supply chains

In the long term, it is expected that the choice between these two supply chains will be made based primarily on volumes. Large scale users of palm products, such as multinational companies with widely advertised corporate sustainability strategies, are likely to choose segregated as they have the economies of scale to ensure a lower premium. In contrast, medium and small players are not expected to be able to absorb the higher segregated premiums their lower volume consumption would entail. Accordingly, these smaller end-users are expected to secure their sustainable palm volumes *via* Book & Claim certificates.

As of December 2010, the Book & Claim supply chain was more developed as compared to segregated. Hence, a number of end-users who expect to switch to segregated volumes in the long-term are using Book & Claim certificates in the interim. Further reasons, beyond the immaturity of the market, that might account for an eventual segregated end-user not yet using this supply chain are:

- The total volumes of palm products that the company needs are more than the market can supply at this time. Large end-users choose to switch ingredient suppliers only when their total needs can be met and therefore will wait until the market develops further and high volume supplies are guaranteed
- There might be contractual obligations with current suppliers that must expire before entering into the CSPO market
- A contract for CSPO supply with a palm oil producer might have been signed, but the palm producer is yet to gain their RSPO certification

The end-user lack of choice of IP or MB supply chains

To date, end-users have chosen to avoid the most expensive supply chain, namely Identity Preserved, for their purchases of sustainable palm oil. Essentially, the reason has been that the supply is not yet available, but end-users have indicated that there is no reason why they would need to be able to trace back their palm product consumption to a particular plantation and therefore would not be willing to pay for such a service. Furthermore, the current macro-economic environment, *i.e.*, high raw material prices and recession hit consumers, ensures end-users are focused on minimising costs whenever possible. The only possible future exception to this analysis is likely to be a multi-national end-user who purchases the entire output of a plantation, inadvertently securing IP sourced palm products, but unlikely to pay the associated high premiums.

The controlled mixing of sustainably certified palm products with uncertified products comprises the MB supply chain and end-users are then required to use the associated weakened marketing and labelling claims. They prefer to be able to claim that their consumer brand uses solely sustainably certified physical palm products without confusing the issue. Moreover, the costs associated with MB are broadly similar to segregated logistically and therefore there is little economic incentive to use MB in preference.

The supply demand balance

By 2015, CSPO supply should continue to outstrip demand resulting in no premium beyond the cost of RSPO and UTZ/GreenPalm compliance. Therefore, by 2015 we can expect CSPO to have become commoditised, lowering supply chain costs and generating a substantial end-user market.

The EU only consumes 4.4 million tonnes of palm oil out of a global market size of 44.5 million tonnes in 2009/2010. Thus, even if the EU switched its entire palm oil consumption to CSPO – which is not a feasible scenario without government intervention – there would remain an excess of CSPO, based on projected supply growth. Looking forward to 2015 and including USA consumption on the basis that it is the most probable second regional market for CSPO – and if we assume USA and EU palm oil consumption grows proportionally with overall forecast growth in vegetable oil consumption – these two regions are estimated to account for only 6.4 million tonnes of palm oil demand in 2015. Thus, it is clear that we must look beyond these regional markets and historical consumption habits if the CSPO market is to balance its potential supply with demand. In terms of expanding the geographical reach of CSPO, major consuming palm oil markets – namely China and India – have given limited indication to date that CSPO has a significant role in their future as long as there is any price premium. While some South or East Asian demand may materialize, perhaps in Japan or South Korea, we can also look to novel high volume demand sources within Europe or North America to absorb excess CSPO volumes. The most promising of these is emerging from power companies who might wish to burn the sustainable palm oil for its calorific value. Biodiesel is a further high volume potential end-use application.

4.2 Analysis of policy options

To supplement the discussions in Section 3 of the potential benefits and costs of each policy option, the identified policy options are evaluated in the table below in terms of their overall relative benefits, costs to government and costs to business. Overall predicted benefits, costs to government and costs to business are expressed in relative terms as high, medium or low.

Benefits relate to the potential level of contribution to the policy objective of increasing the proportion of sustainable palm oil consumed in the UK. Predicted cost levels are also expressed in relative terms, with reference to quantitative data where possible.

The cost of delivering public sector programmes can vary widely (see examples of the range of costs of existing programmes detailed in Annex 1). For example, three identified support and awareness raising programmes (Envirowise, NISP and CRC) have all had operating budgets of around £5 million, including development of case studies, training, awareness raising etc. The Carbon Trust had a significantly larger budget, with expenditures of over £200 million. However, it has a much wider remit than any of the awareness raising programmes and operates as a company rather than a government agency. The example of the legal obligation provided by the Renewable Fuels Agency was comparatively less expensive, at £1.75 million. This included maintaining an IT reporting platform, development of guidance, regular stakeholder meetings, publication of quarterly data reports as well as annual performance reports and a small research programme. In contrast, the cost of CPET support for the Government's timber procurement policy has been in the range of £75,000 - £250,000 per year, and this provides a much more appropriate cost model for any palm oil policy initiative. Policy implementation would also require the necessary time input from a staff member; full-time equivalent (FTE) costs of approximately £50,000 can be assumed. Given recent experience of similar programmes such as the timber procurement policy, a 0.5 person time input for the oil palm policy role is probably a realistic expectation.

A number of existing initiatives already exist to support implementation of Government procurement, such as the Centre of Excellence for Sustainable Procurement (CESP), the Cabinet Office's Efficiency and Reform Group (formerly OGC), Buying Solutions, Government Buying Standards etc. For palm oil, there is an opportunity to embed procurement requirements within existing Defra programmes such as

the Government Buying Standards, and based on the CPET experience, a budget for expert technical support could be expected to be similar.

Furthermore, sustainable procurement-related support functions in Defra are also going to be more closely integrated from August 2011, such that an expected tender for a new delivery function will include the current CPET service and EU Ecolabel support, as well as other activities. There is now a clear opportunity to include support activities relating to sustainable palm oil within that integrated delivery function.

Table 4: Summary impact assessment of policy options

Policy option	Benefits	Costs to government	Cost to business
Support and awareness raising	High Limited leverage without reference to a legislative requirement, combination with a clear driver for change, can have much greater impact. Crucial in delivering successful implementation where there is a gap in understanding of the practical actions required.	High Potential costs of investing in the necessary capacity are relatively high. Support activities in pursuit of a procurement policy may be restricted to the public sector, or extended to private sector suppliers and contractors. Potential range of costs is extremely wide, does not have to be high in absolute terms. Activities can be targeted at specific parts of the supply chain.	Low Limited to the consequent costs of switching to CSPO, otherwise negligible.
Time-bound goal	High Powerful driver for change. Given the gap between current performance in UK supply chains and the overall policy objective, a time-bound goal would be a necessary element of any public procurement policy. It would not be tenable to set a goal for wider industry without also accepting it as an element of public procurement policy.	Medium Some level of cost to government, in terms of developing and maintaining some internal capacity for policy implementation activities.	Medium Will reflect the management costs of identifying supply chains and the direct costs of actually sourcing certified sustainable palm oil products.
Sustainability reporting	Medium Not a viable option in the public sector without an overwhelming cross-departmental commitment. Would effectively be aimed wholly at the private sector, as a tool to stimulate improved performance. Without reference to specific goals, the effectiveness of such a requirement would be reduced, but nevertheless the peer pressure in some sectors created by a reporting scheme could be significant.	Low Assuming that this is largely aimed at the private sector, costs to government would be accordingly low.	Medium Although reporting does entail costs to business in terms of management time and capacity, RSPO members are already obliged to prepare annual reports, and therefore any additional costs for them would be negligible. Sectors where RSPO membership is uncommon may not be subject to significant peer pressure, and therefore take-up of a reporting initiative may be lower. Business costs will also reflect the management costs of identifying supply chains and the direct costs of actually sourcing certified sustainable palm oil products.

Policy option	Benefits	Costs to government	Cost to business
<p>Private sector due diligence</p>	<p>Low Due diligence does not necessarily imply a commitment to purchase certified sustainable palm oil products (although increased purchasing would be a key element), but would require that unacceptable sources are eliminated from supply chains. However, without a clear motivating factor such as linkage to legislation or to a public procurement policy there would be limited incentive for action.</p>	<p>Low Assuming that this is aimed at the private sector, costs to government would be accordingly low.</p>	<p>High Implementing due diligence systems entails probably the most significant management costs to business relative to other policy options in terms of management time and capacity, through identifying supply chains and maintaining a risk management system, in addition to the direct costs of actually sourcing certified sustainable palm oil products.</p>
<p>Public sector procurement policy</p>	<p>High The considerable direct effects of public procurement policy on affected supply chains would have significant impact. In addition, it can be expected that there will also be significant indirect effects, arising from the exemplar and leadership effect of government policy, which also relates to practical factors where suppliers decide to implement a common standard across their business. It is almost certain that a time-bound goal would be a necessary element of any meaningful public procurement policy.</p>	<p>Medium Requires some level of cost to government, in terms of developing and maintaining some internal capacity for policy implementation activities.</p>	<p>Medium Will effectively require action from business, in terms of meeting the obligations that are defined; business costs will therefore reflect the increased management costs of identifying supply chains and the direct costs of actually sourcing certified sustainable palm oil products.</p>

4.3 Conclusions

Stakeholder views

Stakeholders are particularly interested in combining support and awareness raising with other interventions, particularly a time-bound goal with voluntary reporting. Linking a time-bound goal to company reporting would address some of the concerns raised by stakeholders about the importance of demonstrating progress. A stepwise approach for different types of palm products has also been proposed by stakeholders.

There was some resistance to a mandatory reporting requirement, with more interest in a due diligence requirement, though further understanding and development of this option would be needed.

Government procurement is seen as an important market signal and a platform through which the UK Government can engage with other countries.

A particular focus on support for SMEs, developing solutions for palm oil derivatives and customer awareness has been requested.

Impact assessment

Analysis of the relative benefits and costs of the policy options indicates that the highest positive impacts would be achieved by a combination of a public procurement policy that incorporates a time-bound goal, together with targeted support and awareness raising. This approach would provide the necessary leadership and clarity of purpose to galvanise action across UK supply chains, together with the support that is essential to ensure successful implementation.

Specifically, this would involve the following:

- Government procurement policy to purchase only certified sustainable palm oil products by 2015. This target has broad acceptance and is widely adopted, including by the Dutch industry task force and major UK companies.
- Collaboration with industry to encourage collective implementation efforts. There is an existing industry forum that can provide an effective platform for this. Discussions should also explore the potential for utilising existing annual reporting by RSPO members as the basis for an aggregated reporting initiative to cover UK supply chains.
- Support and awareness raising for public buyers and suppliers, to ensure successful achievement of the policy goal, which would also be effective in promoting best practice across the UK marketplace as a whole.

Costs to business of these policy options would not be relatively high, largely limited to the direct costs of switching to certified sustainable palm oil.

Costs to government of the recommended policy options, although high relative to some of the policy options, can in absolute terms remain modest, with a proportion of one officer's time supplemented by some targeted additional support and awareness activities. Policy implementation would require the necessary time input from a staff member; assuming FTE costs of approximately £50,000, and a 0.5 person time input, the oil palm policy role could be expected to cost £25,000. In addition, based on experience with the CPET service, core support and awareness functions, including a website and helpline, can be delivered for £75,000, giving a total annual cost of approximately £100,000.

Annex 1: Examples of Government programme costs

Type of policy option	Service provider	Administration costs
Support & awareness raising Support for businesses	The Carbon Trust	2009/10 expenditures: Specialist advice - £34,000,000 Finance - £147,000,000 Standard setting - £6,722,000 Management & administration - £3,600,000
Support & awareness raising Support for businesses	WRAP	2009/10 ~ £80 million ⁶ They will begin to supplement our core income for activities agreed with our Government sponsors with earned income from advisory services and project development.
Support & awareness raising Support for businesses	WRAP – National Industrial Symbiosis Programme (NISP)	£5,025,000
Support & awareness raising Support for businesses	Envirowise ⁷	2003/04 budget of £5.27 million 2005/05 budget £5.4 million 2006/07 budget £17 million
Support & awareness raising (advocacy, advice and watchdog)	Commission for Rural Communities	£5.8 million
Support & awareness raising for implementation of Government procurement policy	Defra – Central Point for Expertise on Timber procurement	1 FTE Defra staff £250,000 consultancy support
Mandatory reporting Support & awareness for implementation of legislation	Renewable Fuels Agency	£1.75 million in 2010/11, of which about half was for staff and the rest mainly Information Communication Technology. The RFA Board costs around £200,000 a year, including the Chief Executive's pay ⁸ . Including 12 FTE & consultancy support

⁶ http://www.wrap.org.uk/downloads/WRAP_Annual_Report_2009-10.d0edfcac.9493.pdf

⁷ http://webarchive.nationalarchives.gov.uk/tna/+http://www.dti.gov.uk/sustainability/envirowise_mtr_2003.pdf
<http://www.oursouthwest.com/climate/registry/7.12.06-c.bond-envirowise.pdf>
<http://www.oursouthwest.com/climate/registry/7.12.06-c.bond-envirowise.pdf>

⁸ <http://www.google.co.uk/url?sa=t&source=web&cd=2&ved=0CCQQFjAB&url=http%3A%2F%2Fwww.dft.gov.uk%2Fabout%2Fhowthedftworks%2Fndpb%2Faboutthedftnondepartmentalpu1000%2Ffra%2Fdoc%2Ffareview.doc&rct=j&q=renewable%20fuels%20agency%20budget%20&ei=G5b-TOa-O4WShAfvtOWwCw&usg=AFQjCNEF3pT1coq0lz1wzxb0SkBkdbZrVg&cad=rja>



